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PROVINCE OF SASKATCHEWAN

REPORT OF THE PROVINCIAL AUDITOR

TO THE LEGISLATIVE ASSEMBLY

FOR THE

YEAR ENDED MARCH 31

1988

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Canada
S4P 3V7

(306) 787-6398

March 24, 1989

To the Members of the Legislative Assembly

I have the honour to submit to the Legislative Assembly, this report, upon the examination of the accounts of the Government of the Province of Saskatchewan for the fiscal year ending March 31, 1988, to be laid before the Assembly in accordance with the provisions of Section 14 of The Provincial Auditor Act.

Respectfully Submitted,

W. G. Lutz, F.C.A.,
Provincial Auditor

REPORT OF THE PROVINCIAL AUDITOR
1988

Table of Contents

Chapter	Topic	Page
	Introduction	1
1	Audit Scope	2
2	Current Issues of Importance	4
3	Controls Over Electronic Data Processing (Computer Systems)	20
4	Agricultural Development Corporation of Saskatchewan	22
5	Crown Investments Corporation of Saskatchewan	23
6	Department of Agriculture	27
7	Department of Consumer and Commercial Affairs	35
8	Department of Education	38
9	Department of Energy and Mines	47
10	Department of Environment and Public Safety	49
11	Department of Finance	51
12	Department of Health	59
13	Department of Justice	63
14	Department of Parks, Recreation and Culture	66
15	Department of Social Services	69
16	Department of Supply and Services	72
17	Department of Trade and Investment	75

REPORT OF THE PROVINCIAL AUDITOR
1988

Table of Contents

Chapter	Topic	Page
18	Department of Urban Affairs	76
19	Meadow Lake Sawmill Ltd.	78
20	Northern Forest Operations Ltd.	81
21	Potash Corporation of Saskatchewan	82
22	Prairie Malt Limited	84
23	Provincial Secretary	85
24	Saskatchewan Centre of the Arts	89
25	Saskatchewan Forest Products Corporation	90
26	Saskatchewan Legal Aid Commission	91
27	Saskatchewan Liquor Board	92
28	Saskatchewan Power Corporation	94
29	Saskatchewan Property Management Corporation	95
30	Saskatchewan Telecommunications	101
31	Saskatchewan Telecommunications Superannuation Fund	105
32	Saskatchewan Telecommunications International, Inc.	109
33	Saskatchewan Transportation Company	111
34	Westbridge Computer Corporation	112
35	Western Development Museum	114
36	Workers' Compensation Board (Saskatchewan)	115

REPORT OF THE PROVINCIAL AUDITOR
1988

Table of Contents

Chapter	Topic	Page
Appendix I	The Provincial Auditor Act	
Appendix II	Reports of Appointed Auditors Part I and Part II	
Appendix III	Audits Not Completed At March 24, 1989	
Appendix IV	List of Financial Statements and/or Annual Reports Not Tabled in The Legislative Assembly in the Manner Required By Law	

REPORT OF THE PROVINCIAL AUDITOR TO THE LEGISLATIVE ASSEMBLY FOR THE FISCAL YEAR ENDED MARCH 31, 1988

INTRODUCTION

Saskatchewan's parliamentary system of government is based on the principle of the rule of law. Compliance with the law is critical to the entire system. Because of the importance of this principle, much of this report is about instances where the laws have been contravened.

The law requires the Provincial Auditor to report where, in his opinion, the management of public money was deficient.

Reporting in this manner does not give credit for all of the cases where my audits found public money was properly managed. Thus, this type of reporting may be viewed by any government of the day as unfair.

However, this method of reporting highlights deficient practices so Members can direct their attention to matters that need their time.

Over the years, it has been my experience that in most cases where deficiencies in the management of public money were reported, corrective action was taken.

1

AUDIT SCOPE

1.00 Every agency of government is subject to an annual audit under The Provincial Auditor Act.

1.01 An audit under The Provincial Auditor Act is conducted in accordance with generally accepted auditing standards. It consists of tests and other procedures I consider necessary to form the following audit opinions:

- an audit opinion on the adequacy of the control systems used by an agency to safeguard and control public money,
- an audit opinion on an agency's compliance with the law with regard to its spending, revenue raising, borrowing and lending activities,
- an audit opinion on the financial statements prepared by management of an agency.

1.02 Where, in my opinion, the control systems used by an agency are deficient I audit additional transactions whenever possible. This is done to determine whether for those transactions selected:

a) there was any wilful or negligent non-collection of public money,

b) public money has been duly accounted for and paid into the appropriate fund,

c) appropriations were exceeded or applied to unauthorized purposes,

d) expenditures had adequate authority and were properly vouchered and certified,

e) there has been a deficiency or loss to the crown.

1.03 This audit of the additional transactions is also conducted in accordance with generally accepted auditing standards. It consists of tests and other procedures I consider necessary under the circumstances.

1.04 An audit may not disclose errors or fraud which could be reported under The Provincial Auditor Act since not all transactions are examined. Therefore, the reporting or non-reporting of an item is not intended to provide any assurance on transactions which have not been examined.

Audit Scope

1.05 Because of the inherent limitations in any system of management controls, errors or fraud may occur and not be detected. Also, a system which is appropriate today, may not be appropriate in the future, if present procedures are not followed or if changes in conditions cause the procedures to become inadequate.

1.06 Where the accounts of an agency are audited by another auditor (appointed auditor), that auditor is not a substitute for the Provincial Auditor. I continue to be responsible to form the opinions set out in paragraph 1.01.

1.07 The law permits me to rely on appointed auditors when I am satisfied with their work and reports. If I am not satisfied, I must by law conduct my own audit procedures.

1.08 The observations in this report are the result of the audits performed, including information from appointed auditors.

1.09 The law permits appointed auditors to conduct their audits of public money in the manner they consider necessary using generally accepted auditing standards. If they consider it necessary, they can prepare a report to the Legislative Assembly, which is to be submitted to the Provincial Auditor. The law requires the Provincial Auditor to compile these reports and include them as part of his annual report.

1.10 These reports are contained in Appendix II to this annual report. Appendix II consists of two parts. The first part contains reports where I have finished all of my audit procedures to determine if I can rely on the appointed auditor. The second part contains the reports where I have not finished all of my audit procedures to determine if I can rely on the appointed auditor.

1.11 The audit observations in this report result from all audits completed at March 24, 1989. Significant matters resulting from audits completed after that date will be covered by special report or the next annual report. A list of audits not completed is contained in Appendix III.

2

SUMMARY OF CURRENT ISSUES OF IMPORTANCE

Chapter 2 is about the accountability process needing repair. The major issues are discussed and reported under the following headings:

PROVINCIAL AUDITOR

I cannot effectively carry out my role to watch over the public purse for my client, the Legislative Assembly. I recommend the process be repaired to require that appointed auditors and the Provincial Auditor work together on crown corporation audits as joint auditors or with some similar arrangement.

Also, there were a number of cases where I could not get information that, by law, I was entitled to receive.

INFORMATION

In my view, the Legislative Assembly requires more information about crown corporations, crown-controlled corporations and mixed corporations.

The public accounts are not complete, correct or timely.

There were a number of cases where the tabling of annual reports and financial statements did not comply with the law.

2

CURRENT ISSUES OF IMPORTANCE

THE ACCOUNTABILITY PROCESS

2.00 In our parliamentary system of government the Executive Council and its appointed officials (Executive) must be accountable to the Legislative Assembly (Assembly). Thus, the Executive is responsible to give to the Assembly reasons for and explanations of its actions.

2.01 The Governmental Accounting Standards Board has stated in its Concepts Statement No. 1:

> *"Accountability is the cornerstone of all financial reporting in government....Accountability requires governments to answer to the citizenry--to justify the raising of public resources and the purposes for which they are used. Governmental accountability is based on the belief that the citizenry has a 'right to know,' a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives. Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society."*

2.02 The Assembly's ability to question the Executive's actions is affected by the information the Executive gives to the Assembly.

2.03 There can be a conflict of interest between the Executive and the Assembly with regard to information. The Assembly needs information from the Executive to question the Executive's actions. The Executive may be reluctant to provide complete, timely and meaningful information to the Assembly.

2.04 The Assembly recognized this potential conflict of interest and created an officer called the Provincial Auditor to watch over the public purse. He has an important role in the process because he must report information to the Assembly which might not otherwise be known.

2.05 This chapter describes a number of cases where, in my opinion, the accountability process needs repair.

THE PUBLIC PURSE

2.06 Because there are no summary financial statements for the government of Saskatchewan, I have prepared the following information to show the approximate size and form of the public purse. This information is provided for illustrative purposes only.

	March 31, 1988	March 31, 1987
Expenditures:		
Crown corporations (expenses)	$4.0 Billion	$3.7 Billion
Government departments*	2.9 Billion	3.1 Billion
Total	$6.9 Billion	$6.8 Billion
Acquired physical assets:		
Crown corporations	$13.1 Billion	$11.7 Billion
Government departments	Information not available	
Employees:		
Crown corporations	25,000	23,000
Government departments	10,000	13,000
Total	35,000	36,000

*Net of transfer payments to crown corporations.

PROVINCIAL AULITOR

2.07 This part of the report describes the need to repair the accountability process so that:

- the Provincial Auditor can carry out his role effectively, and
- there is no interference with the Provincial Auditor in the execution of his duties.

Effectiveness

2.08 This report represents the first year of operations under the 1987 changes to The Provincial Auditor Act and other related laws. The changes permit the appointment of more private sector auditors (appointed auditors).

2.09 Under the law, the Provincial Auditor is responsible for the audit of 100% of the public purse. The law permits the Provincial Auditor to carry out his responsibilities by relying on the audit done by an appointed auditor. The law requires the Provincial Auditor to use his professional judgement to justify this reliance.

2.10 The Provincial Auditor must conduct audit procedures to determine if reliance on an appointed auditor is justified. These procedures have not extended to a first hand audit of the books and records of any crown corporation except for the minutes of some of the Boards of Directors.

2.11 Therefore, where a crown corporation has an appointed auditor the Provincial Auditor no longer sees the financial transactions of that crown corporation. With the present arrangements, the Provincial Auditor sees only what an appointed auditor chooses or is permitted by the crown corporation to show him (see Chapters 21, 28, 30, 31 and 32).

2.12 With the appointment of more private sector auditors the Provincial Auditor now sees about 50% of the expenditures from the public purse. In 1987 the Provincial Auditor saw about 90% of the public purse.

2.13 Appointed auditors as professionals serve their client, the Executive, with the same integrity I serve my client, the Assembly. However, no person can serve two masters who have different requirements and where conflicts of interest can arise (see paragraph 2.03).

2.14 Similar views have been voiced by parliamentarians about the relationships of legislative auditors, private sector auditors and crown corporations.

2.15 Mr. Bill Clarke, Chartered Accountant, made the following comments to the Saskatchewan Public Accounts Committee on September 16, 1982. Mr. Clarke was a member of the Public Accounts Committee Canada from 1974 to 1983 and Chairman of that Committee for three years.

> *"We also made a report on the post office, because under the new post office act the auditor general was only appointed as a co-auditor, and subsequently was informed by the Prime Minister that he could not expect to have his contract renewed after the first two years. And the public accounts committee and many members of parliament think that that is a very poor thing. The auditor general has been auditing the post office for 103 years, and it certainly depends on the crown for moneys.*

The auditor general is the only one who can report to the House of Commons. That is the important distinction -- outside auditors cannot report to the House of Commons. They can report to the minister and the minister, as he has proven, can sit on auditors' reports for weeks or months as he chooses. That circumvents the accountability process that we think is so necessary."

2.16 On May 18, 1983, the Honourable Mr. Andrew, Minister of Finance and former chairman of the Standing Committee on Public Accounts, made the following comments to the Saskatchewan Public Accounts Committee:

"I think the rationale, to put it in laymans terms, would be that....because the Provincial Auditor's function is basically to report to the Legislature, and therefore certain, maybe, conditions are different than an outside auditor reporting to his board of directors and through them to the shareholders. There's maybe different criteria..."

2.17 On June 29, 1987, the Leader of the Opposition (Honourable Mr. Blakeney) made the following comments in the Legislative Assembly:

"I've had an occasion to discuss this matter with some people who are familiar with auditing, and I've asked them, well if somebody is appointed--Clarkson Gordon, I'll simply use a firm in whom I have every confidence--are appointed by somebody, by the cabinet or by the board of directors of the power corporation, to audit the power corporation, who is their client? And that's key--who is their client? To whom do they report? Whose interests are they protecting?

Now I ask again: in my power corporation analogy, who is the client? Who's appointing--who is appointing Clarkson Gordon? Not this legislature. I don't know who it's going to be, but not the representatives of the ultimate owners. And therefore, while there is no problem in having Clarkson Gordon do some auditing work...auditing work doesn't have to be done always for the benefit of the shareholders, it can be done for the benefit of management. But the ultimate report, the report on whether or not the financial statements fairly represent the state of accounts of that corporation, and the results of the carrying on of business of that corporation--that must be done by someone who represents the shareholders, the ultimate owners. That is the Provincial Auditor, and nobody else. Nobody else.

And there can't be any doubt about this, and it's got nothing to do with the professionalism of the auditor or anything of that kind. Anybody who operates in the profession knows--and I think of my own experience in the legal profession--an absolutely key question is: who is your client? Who is your client?

No professional person wants to get himself in a position of any sort of conflict of interest. And very clearly, if a board of directors of a Crown corporation appoints an auditing firm and the auditing firm feels

that they must reflect adversely on the management in that board of directors, we set up, immediately, a potential conflict of interest. And we simply can't have it. The system doesn't work that way, and it will not work that way."

2.18 It is important to note the appointed auditors and the Provincial Auditor have different clients. Thus, different interpretations may be applied to the same financial transactions. An example is contained in Chapter 5 where, in my opinion, a crown corporation was involved in a $2.7 million transaction that was in part beyond its statutory powers. The corporation's appointed auditor felt the transaction was within the powers of the Corporation. More examples are contained in Chapters 19, 29, and 31.

2.19 The examples given do not result from a first hand audit by my officials. The examples are the result of second hand information (see paragraph 2.10). Therefore, it is possible if my interpretations were applied first hand to the financial transactions of crown corporations other matters might be reported to the Assembly.

2.20 The Provincial Auditor can no longer effectively serve the Assembly because:

- he now sees the financial transactions for about 50% of the public spending;
- when reliance on an appointed auditor is not justified, it is no longer possible to carry out the work not done by the appointed auditor (see Chapters 29, 30, and 31); and
- I am being denied access to information. (See 2.25 to 2.57).

2.21 In my opinion, the accountability process must be repaired so I can effectively serve the Assembly. I recommend the process be changed so the appointed auditor and the Provincial Auditor work together on crown corporation audits as joint auditors or with some similar arrangement.

2.22 It can be argued there is no need to change the process as the law permits the Provincial Auditor to conduct an audit of any crown corporation when he is not able to rely on an appointed auditor. Therefore, there is nothing limiting the Provincial Auditor's ability to serve the interests of the Assembly.

2.23 This argument has been considered and it was decided not to pursue that course of action at this time for the following reasons:

- it is not possible to determine if reliance can be placed on the work of an appointed auditor until after the year end. When reliance is not justified a problem arises. The problem is, it is no longer possible for the Provincial Auditor to carry out the work not done by the appointed

auditor, because the year end has gone by. See Chapters 29, 30, and 31 of this report and Chapter 36 of my 1987 annual report,

- as reported in my special report to the Assembly on September 30, 1987, the financial resources to conduct such audits were taken away,

- it would be disruptive to the crown corporation concerned,

- it would lead to conflict with the appointed auditor.

2.24 However, if left with no alternatives, I will have to ask for additional resources to conduct my own audits in the future.

Interference

2.25 If the Provincial Auditor is to be effective, the persons held accountable must not limit what the Provincial Auditor may see and from whom he can receive information regarding public money.

2.26 Information must be provided willingly and in a timely manner. If the process is to be effective, there has to be co-operation.

2.27 This need for the Provincial Auditor to have co-operation and the right to obtain information is set out in The Provincial Auditor Act. In Section 24 he is given authority to obtain any information he requires from a crown corporation even where there is another auditor appointed. Further, the Provincial Auditor is authorized by Section 12 to report where he has not received the information he required.

2.28 There are no penalities set out in The Provincial Auditor Act for failure to provide required information to the Provincial Auditor. The Legislative Assembly and Executive Council Act contains provisions to ensure that required information is provided.

2.29 Section 24(1)(d) of The Legislative Assembly and Executive Council Act states:

> *"24.(1) The Assembly is a court and has all the rights, powers and privileges of a court for the purpose of summarily inquiring into and punishing:*
>
> *(d) assaults upon or interference with officers of the Assembly while in the execution of their duties;"*

2.30 Where the Executive limits the Provincial Auditor's ability to carry out his duties the accountability process is broken.

2.31 In my opinion, I have been interfered with in the execution of my duties.

2.32 My administration of The Provincial Auditor Act is consistent with literature from the accounting profession. My administration is also consistent with the interpretation I provided in my September 30, 1987 special report to the Assembly.

2.33 My interpretation was not disputed during debate on the changes to The Provincial Auditor Act. My right to obtain information was confirmed by the Minister of Finance on page 3514 of Hansard during the October 26, 1987 debate on the changes to The Provincial Auditor Act.

2.34 As reported in my 1987 annual report, on September 17, 1987, the Minutes of the Board of Directors of the Crown Investments Corporation of Saskatchewan (C.I.C.) contained the following:

> *"The Board confirmed their direction to CMB Management to not release any information to the Provincial Auditor pending further discussions among the Board Members."*

2.35 In my opinion, this action by the Executive is an interference with an Officer of the Assembly.

2.36 In addition, on April 12, 1988, my officials were refused access to the minutes of the Board of Directors of C.I.C. Therefore, I have not seen any minutes of C.I.C. issued since its November 12, 1987 Board meeting.

2.37 On June 16, 1988 these actions were discussed by the Standing Committee on Public Accounts.

2.38 During discussion, a Member was of the opinion I had not followed a "proper procedure" to obtain information about C.I.C.'s administration of public money.

2.39 The Member's view of this so called "proper procedure" was I had a professional and legal responsibility to initially route any requests for information through the appointed auditor of a corporation. This view was also expressed by the Executive.

2.40 I believe a "proper procedure" is a procedure which has the force of law. The law states the Provincial Auditor has free access to the files, documents and other records of C.I.C. The law is consistent with accounting literature and parliamentary accountability on this subject.

2.41 It does not seem reasonable to me that by avoiding the letter of the law the Executive can determine what I can or cannot see, by saying I nave not followed a "proper procedure" which the Executive alone defines. If the Executive can decide what and how I can examine, the Assembly does not have a watchdog over government spending.

2.42 However, to avoid confrontation, on June 22, 1988 I tried to obtain the C.I.C. minutes through the appointed auditor. He informed me that he did not have the minutes of the Board of Directors of C.I.C.

2.43 Saskatchewan Property Management Corporation (SPMC) has refused to give me information about ministerial travel expenses.

2.44 I wanted to know under what circumstances a minister may use an executive airplane and what controls are in place.

2.45 I also wanted to know what costs would be billed by SPMC to government agencies for a minister's use of an executive airplane. Specifically, will it be full cost, including overhead.

2.46 Before asking for the information from SPMC, I followed the "proper procedure" by reviewing the files of the appointed auditor. The appointed auditor did not have any information about these matters in his files. I then asked SPMC for information.

2.47 An officer of SPMC outlined the position of SPMC to my official.

2.48 The position was, if the information requested related to the SPMC audit I should ask SPMC's auditor. If the information requested related to a Department of government I should ask the Department. He indicated that whatever the case they would not answer my questions directly.

2.49 SPMC was advised by my official that the appointed auditor and the Departments did not have all the information.

2.50 The law states SPMC must give me information directly.

2.51 In my opinion, this action by SPMC is an interference with an officer of the Assembly in the discharge of his duties.

2.52 Further comments about ministerial travel and SPMC are included in Chapter 29.

2.53 There were three other instances where there was interference with me when following the "proper procedure". These instances are more fully described in Chapters 21, 28, and 30 of this report.

2.54 The accounting profession advises an auditor to be more cautious than normal when:

- information is provided unwillingly or only after unreasonable delay, and

- a limitation in the scope of the audit is imposed by management.

2.55 In addition to my inability to get information from C.I.C., S.P.C., SPMC, SaskTel and P.C.S., I was refused access to the accounts of a crown controlled corporation, Westbridge Computer Corporation.

2.56 In 1987 the Assembly changed The Provincial Auditor Act. One of the changes required that the audit carried out on crown controlled corporations was to be the same as an audit of crown agencies.

2.57 Westbridge Computer Corporation has not been audited in the manner required by The Provincial Auditor Act. This matter is more fully described in Chapter 34 of this report.

Independence

2.58 For several years I have reported the need to have the Provincial Auditor's funding set by a Committee or Board of the Assembly and not the Executive.

2.59 The accountability process can be affected by limiting funding for the office of the Provincial Auditor.

2.60 I have reported instances of interference in the 1987 annual report and the September 30, 1987 special report.

2.61 I recommend funding for the Office of the Provincial Auditor be set by a Committee of the Assembly.

INFORMATION

2.62 The accountability process should also be repaired so the Assembly is provided with timely, complete and meaningful information.

2.63 My comments in this section are grouped under three headings: *Crown Corporations, Public Accounts and Non-Compliance with the Law.*

Crown Corporations

2.64 Increasingly, crown corporations are being used by government to carry out public policy objectives. I do not have a concern with the use of crown corporations to carry out public policy objectives, if the Assembly is provided with sufficient information to direct and control this part of the public purse. It is the absence of information that causes me concern.

2.65 Information is necessary to the accountability process. The accountability process suffers when the information provided by the Executive to the Assembly is not complete.

2.66 In my opinion, the accountability process needs to be repaired so the Executive provides complete information about crown corporations. Complete information is necessary for the Assembly to ask questions of the Executive about its actions.

2.67 My opinion is based on the following observations regarding completeness of information. These observations are set out under the headings, *Scrutiny of spending* and *Scrutiny of financial statements.*

Scrutiny of spending

2.68 Crown corporations do not provide the Assembly with enough information to allow a detailed investigation of government spending.

2.69 For example, when public money is spent through a government department the Assembly is provided with a list of the persons who received money. This information allows the Assembly, and the public, to question payments. The process is critical to our parliamentary system of government.

2.70 Crown corporations are not required to provide the Assembly with a list of the persons who received money. As a result there is not full accountability.

2.71 Annual reports of crown corporations provide audited financial statements. Audited financial statements provide useful information to the Assembly but not enough information for a detailed scrutiny of spending.

2.72 E. L. Normanton in his book "Accountability and the Audit of Government" has this to say about accountability and audited financial statements:

> *"To be accountable means, as any dictionary will confirm, to give reasons for and explanations of what one does. But a certified financial account rarely provides explanations, and it never gives reasons. It does not as a rule even contain much detail of what actually has been done. A final account must be technically correct and is therefore a device essential to the prevention of fraud. It is not, however, an adequate public record of policy and transactions during the period concerned. A financial account on any large scale hides far more than it reveals.....*
>
> *This is important because bodies exist which receive and spend public funds but which do not explain their annual accounts. They have them certified as the law demands, but the accounts are not subjected to a detailed independent scrutiny. They present a financial facade which in*

the present state of the law is impenetrable. Such bodies are not really accountable for the moneys which they receive. In the sense of a discharge of public responsibility, accounts without the possibility of explanations are to all intents and purposes worthless. They leave to the body concerned the administrative liberty to do almost anything, and then cover up afterwards. It would perhaps be less misleading to render no accounts at all."

Scrutiny of financial statements

2.73 In addition to the lack of a list of persons who received money, some crown corporations (90 - 100% owned) and crown-controlled corporations (50 - 90% owned) are not required to table their financial statements in the Assembly. There is no law requiring the audited financial statements for these corporations created under a Business Corporations Act to be tabled in the Assembly.

2.74 These corporations administer public money. Some examples of these corporations are:

1) Meadow Lake Sawmill Ltd.

2) CIC Industrial Interests Inc.

3) Prairie Malt Limited

4) Westank Industries Ltd.

5) SaskPen Properties Ltd.

6) Westbridge Computer Corporation

2.75 The Standing Committee on Public Accounts discussed this matter and in its report of November 3, 1987 made the following recommendation to the Legislative Assembly:

"That the Committee recommend that the Government consider preparing legislation to ensure that the duly audited financial statements for Crown agencies established pursuant to The Business Corporations Act are tabled in the Legislative Assembly, providing that the competitive position of the Crown Corporation is not prejudiced."

2.76 Freedom from public scrutiny provides the ability to work in secrecy. In my opinion, the Executive is given charge of an asset belonging to the public. Therefore, the Executive should account to the public for the use made of an asset by providing financial information for these crown corporations.

2.77 The move to public participation may result in more 'mixed corporations' (less than 50% crown owned). These are corporations, created

under a Business Corporations Act, whose voting shares are owned by private sector participants and the crown. Examples of these types of corporations are IPSCO and SaskOil.

2.78 These 'mixed corporations' represent an investment of public money on behalf of taxpayers. The Executive is responsible to manage this public money and to account to the Assembly for its management.

2.79 In order for the Executive to be held accountable for its actions, the Assembly requires information.

2.80 With the move to more public participation, it is timely that the Assembly consider the accountability issues of 'mixed corporations'.

2.81 There is, in my opinion, a need for the Assembly to create an accountability link so it receives information about each investment in a 'mixed corporation'. The type and amount of information needs to be related to the amount of public investment and/or the public policy objective.

2.82 Information which might assist the Assembly is:

- the nature and extent of the investment,
- the financial statements which show the results of operations and financial position of the mixed corporation,
- the objective of making and keeping the investment and the extent to which the objective is achieved.

Public Accounts

2.83 Complete, correct and timely information is necessary for the Assembly to question the Executive about its actions. In my opinion, the Public Accounts are not timely and they do not provide correct and complete information to the Assembly.

2.84 My opinion is based on the following observations set out under the headings of *Timeliness, Completeness* and *Correctness.*

Timeliness

2.85 In my opinion, it is essential that the Assembly has information on last year's spending before it is called upon to authorize next year's spending.

2.86 The Public Accounts for the year ended March 31, 1987 were given to the Assembly on May 19, 1988, more than a full year after the end of the year.

2.87 In April, 1988 the Assembly was asked to authorize the spending for 1989, without information on 1988 and 1987 spending.

2.88 If the Assembly is to hold the Executive accountable it needs to repair the process so it receives timely information.

2.89 The Public Sector Accounting and Auditing Committee of The Canadian Institute of Chartered Accountants has stated:

> *"Information should be timely. Financial statements issued long after the year end are of historical interest only. The usefulness of information in making decisions and judgements diminishes as time elapses."*

2.90 Although the Executive has given the Assembly part of the Public Accounts for 1985, 1986 and 1987, one volume for each year is missing.

2.91 In its April, 1975 report (as amended) to the Assembly the Standing Committee on Public Accounts recommended:

> *"Your Committee considered the question of the amount of detail now appearing in the Public Accounts text. Your Committee recommends that the levels for detail to be shown in the Public Accounts be as follows:*
>
> *$20,000 per employee for wages and salaries*
> *$10,000 for payments to suppliers and*
> *$ 2,000 per person for travel and that where the aggregate of any person exceeds the limits throughout all departments, this aggregate amount is to be also shown."* (emphasis added)

2.92 The Assembly approved the report.

2.93 The information requested by the Assembly was provided in the Public Accounts for each of the years 1976 through 1984.

Completeness

2.94 The Assembly and the taxpayers require a complete picture of the Province's finances: what is owned, what is owed, where revenue comes from and how revenue is spent. There is a law requiring this information. Section 65 of The Department of Finance Act, 1983 states:

> *"65(1) As soon as is practicable after the close of a fiscal year, the minister shall cause to be prepared by the comptroller a statement of the public accounts for that fiscal year.*
>
> *(2) The public accounts prepared pursuant to subsection (1) are to show clearly and fully:*
>
> *(a) the revenues and expenditures of the Government of Saskatchewan; and*
>
> *(b) the state of the consolidated fund and of any trust and special funds managed by the minister;*

and are to set forth all matters that are required to explain the financial transactions and position of the Government of Saskatchewan during and at the close of the fiscal year."

2.95 The Public Accounts do not contain financial statements that set forth the financial transactions, position, revenues and expenditures of the Government of Saskatchewan during and at the close of the year.

2.96 The main financial statements in the Public Accounts contain the Consolidated Fund, the Saskatchewan Heritage Fund and a statement adding these two funds together.

2.97 The financial statements contained in the Public Accounts account for about 50% of the public spending of the Government of Saskatchewan (see paragraph 2.06 regarding the size of the public purse).

Correctness

2.98 In my opinion, in addition to the failure to provide timely and complete information in the Public Accounts, the information which is provided is not correct.

2.99 My reports on the financial statements for the Consolidated Fund for the past three years have described where, in my opinion, the statements are not correct. These reports are explained in Chapter 11 of this report.

Non-Compliance With The Law

2.100 My officials noted instances where the tabling of annual reports and/or financial statements in the Assembly did not comply with the law. Appendix IV contains a list of these statements and/or annual reports.

CONTROL OF PUBLIC SPENDING

2.101 It is fundamental to our parliamentary system of government that the Executive should not be allowed to spend public money without prior approval of the Assembly.

2.102 In special cases, the Assembly provides the Executive with the authority to spend public money by special warrant without prior approval of the Assembly.

2.103 Where the Executive has authorized the spending of public money by special warrant, the Executive is required to include the amount of public money spent in this manner in the next Appropriation Act. The law also requires the Provincial Auditor to report where a special warrant authorized the payment of public money.

2.104 Spending in this manner is an encroachment by the Executive Arm of Government on the rights of the Legislative Arm of Government. This action is only permitted by the Legislature when an expenditure is urgently and immediately required for the public good.

2.105 Only the Assembly can determine whether conditions existed which permitted the Executive to spend money without prior approval of the Assembly.

2.106 In 1987/88 the Executive authorized the spending of approximately $1 billion of public money without prior approval of the Assembly.

2.107 I report all payments made by the authority of a special warrant were included in the next Appropriation Act.

3

CONTROLS OVER ELECTRONIC DATA PROCESSING
(Computer Systems)

3.00 As part of the audit of Departments and Crown agencies my officials examine the rules and procedures to determine whether:

- the security systems are adequate to prevent and detect unauthorized access to information or unauthorized manipulation of data maintained on computer files, and

- back-up files and programs and alternate processing facilities are available to ensure that computer processing capability can continue in the event of an equipment failure.

3.01 Officials of each Crown agency and Department are responsible to establish policies and procedures to ensure that transactions are properly recorded and to ensure appropriate security over their records.

3.02 For small unsophisticated accounting systems these policies and procedures are relatively easy to implement by such means as physically limiting who can have access to the documents, books and records of the organization and storing the records in locked, fire resistant areas.

3.03 Where computers are involved in the processing of financial records it becomes more difficult to control access to an organization's records and to physically protect the records.

3.04 Further difficulties arise where the records of an organization are processed and stored by a computer service bureau. This results in the need for more sophisticated control techniques in order to achieve the appropriate degree of control.

3.05 Many government Departments and Agencies use the services of Westbridge Computer Corporation (Westbridge) to process and store their records.

3.06 During the audit of government Departments and Agencies, it was noted that there was no policy requiring Westbridge to provide written assurance, attested to by an auditor, that security over the operating system and processing environment at Westbridge was adequate to ensure that Westbridge has implemented and satisfactorily carried out the control procedures required by each government Department or Agency.

3.07 Accordingly, government Departments and Agencies have no evidence that their records are protected in accordance with the policies that they have established with the result that the security of their data files and programs may be compromised.

Controls Over Electronic Data Processing (Computer Systems)

3.08 I have recently received a copy of a report issued by Westbridge about its control procedures. This report was attested to by an auditor. I will be evaluating this report during the 1989 audit.

3.09 With regard to alternate computer processing capability and back-up data files and computer programs my officials also observed that in a number of Departments and Agencies there was not a formal plan documenting the manner in which computer processing and financial transactions would continue in the event of an equipment failure.

3.10 These matters were reported in my 1986 annual report. While officials of Departments and Agencies have taken actions to strengthen controls over computer systems since my 1986 annual report, I am of the opinion that controls over computer systems require further strengthening to more adequately safeguard critical information and to ensure essential records are maintained.

3.11 The Standing Committee on Public Accounts (PAC) considered computer controls when it reviewed my 1986 annual report.

3.12 On November 3, 1987 the PAC recommended the following:

> *"The Committee notes the Auditor's recommendation in section 3.11 of his report as follows:*
>
> > *While officials of departments and agencies have taken actions to strengthen controls over computer systems since my 1983 annual report, I am of the opinion that controls over computer systems require further strengthening to more adequately safeguard critical information and to ensure essential records are maintained.*
>
> *The Committee supports this recommendation that there is a need for further strengthening of computer security and controls systems and the Committee urges departments to examine these systems and take the necessary steps to adequately secure electronic data and that a report be provided to the Public Accounts Committee on steps that have been taken."*

3.13 In PAC document #7 1988/89, dated May 30, 1988, the Provincial Comptroller reported that his office was in the process of finalizing a policy on this issue.

3.14 On March 17, 1989 the Provincial Comptroller issued policies for these matters. These policies, once implemented, will satisfactorily deal with my concerns on this matter.

4

AGRICULTURAL DEVELOPMENT CORPORATION OF SASKATCHEWAN

4.00 Inherent in an appropriate system of management controls is the formal communication of policy and delegation of authority from senior management to the appropriate employees and procedures to ensure there is compliance with the policy and delegation.

4.01 During the audit it was noted that the Corporation's policies and procedures manuals were not current and complete.

4.02 As a result, changes in staff or staff duties could lead to a breakdown of control.

4.03 Accordingly, errors or fraud may occur without ready detection by management personnel.

4.04 See Appendix II for further information on this matter.

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

Table of Contents

	Paragraph
Payments without authority	5.04
Inappropriate opinion	5.09
Difference of opinion	5.14

5

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

5.00 I am unable to rely on the report of the appointed auditor for the following reasons:

- the appointed auditor has not reported on $2.7 million of payments that were in part, in my opinion, beyond the powers of the Crown Investments Corporation of Saskatchewan (C.I.C.).

- the appointed auditor has, in my opinion, issued an inappropriate opinion on the consolidated financial statements of C.I.C.

- there is a difference of opinion between two appointed auditors as to whether or not it is correct to record $63 million of income in the 1987 financial statements for C.I.C. and for its subsidiary Meadow Lake Sawmill Ltd.

5.01 I have not conducted additional audit procedures at C.I.C. at the present to determine:

- the portion of the $2.7 million that was beyond C.I.C.'s powers.

- if there are any more payments made by C.I.C. that are beyond its powers.

- to form an opinion as to the correctness of recording $63 million of income in the 1987 financial statements of C.I.C. and its subsidiary Meadow Lake Sawmill Ltd.

5.02 When my audit procedures are completed, I will report the results in my next annual report.

5.03 Further discussion regarding each of these matters follows.

PAYMENTS WITHOUT AUTHORITY

5.04 The corporation has entered into a contract with a consultant to evaluate and review the overall effectiveness and efficiency of all government departments and to report thereon.

5.05 Payments of $2.7 million have been made under the contract.

5.06 My lawyer has informed me C.I.C. does not have the authority to enter into contracts and make payments for services to government agencies that are not subject to The Crown Corporations Act, 1978.

5.07 Many government agencies are not subject to The Crown Corporations Act. Therefore, that portion of the payments related to government agencies not subject to The Crown Corporations Act, 1978 are without proper authority.

5.08 The appointed auditor has relied on the opinion expressed by C.I.C.'s lawyer. C.I.C.'s lawyer was of the opinion that C.I.C. had the authority to enter into the contract and make the payments.

INAPPROPRIATE OPINION

5.09 My auditor's report on the consolidated financial statements of C.I.C. for the year ended December 31, 1986 contained a reservation of opinion.

5.10 I reported that generally accepted accounting principles (G.A.A.P.) precludes from consolidation the financial results of companies which are not owned through share capital. Therefore, in my opinion, it was not appropriate to consolidate Part II crown corporations because they do not meet the ownership test under G.A.A.P.

5.11 An Order-in-Council was passed engaging an appointed auditor for C.I.C. for 1987. The appointed auditor has issued his audit report without reservation. It was his opinion that G.A.A.P. did not preclude from consolidation, companies which are not owned through share capital.

5.12 It is my opinion the appointed auditor has issued an inappropriate audit report.

5.13 Accordingly, I have reported this matter to the Institute of Chartered Accountants of Saskatchewan. I will report its ruling when I receive it.

DIFFERENCE OF OPINION

5.14 Consolidated financial statements (statements) are those statements produced by adding together the statements of one or more subsidiary companies on a line by line basis (assets, liabilities, income and expenses) with the statements of the parent company and eliminating intercompany balances and transactions.

5.15 The C.I.C. consolidated financial statements include $63 million of interest income recorded in the statements of its subsidiary Meadow Lake Sawmill Ltd as described in Note 3 of the financial statements.

5.16 Meadow Lake Sawmill Ltd.'s appointed auditor reported that it was not appropriate to record the $63 million as income for 1987 and expressed a reservation in the audit opinion on the financial statements (see Chapter 19).

5.17 C.I.C.'s appointed auditor did not express a reservation of opinion on C.I.C.'s financial statements for the same income.

DEPARTMENT OF AGRICULTURE

Table of Contents

	Paragraph
Canada - Saskatchewan Waterfowl Crop Damage Compensation Program	6.00
Contractual payments	6.05
Farmers' Oil Royalty Refund Act	6.09
Farm Purchase Program	6.14
Livestock Investment Tax Credit	6.17
Prairie Agricultural Machinery Institute	6.20
Saskatchewan Beef Stabilization Board	6.24
Management control deficiencies	6.25
Non-compliance with authorities	6.33
Saskatchewan Sheep and Wool Marketing Commission	6.45
Check-off fees	6.47
Producer registration	6.48
Interprovincial or export trade levies	6.50

6

DEPARTMENT OF AGRICULTURE

CANADA - SASKATCHEWAN WATERFOWL CROP DAMAGE COMPENSATION PROGRAM

6.00 There were incorrect payments to claimants because control procedures were not adequate.

6.01 The program required a proof of loss/inspection report (Report). This Report was required to be compared to indemnity claims (Claims) before payments were made.

6.02 This comparison between the Reports and the Claims was not effective with the result that incorrect payments were made.

6.03 The rates to be paid under the program are set out in Section 8 of an agreement with the Government of Canada (Agreement).

6.04 Officials did not pay claims for winter wheat and fall rye according to the rates set out in the Agreement.

CONTRACTUAL PAYMENTS

6.05 By agreement with the Government of Canada, Provincial Income Taxes are assessed and collected by Revenue Canada.

6.06 The Income Tax Act requires that every person paying salary or wages or other remuneration, withhold from those payments the prescribed amount to be remitted to the Minister of Finance. During the audit, it was observed that the Department had not withheld and remitted the prescribed amount with respect to payments made pursuant to certain contractual arrangements for full time services. In this respect, the Department is not in compliance with The Income Tax Act.

6.07 The Income Tax Act in Section 14 states in part:

"(1) Every person:

(a) Paying salary or wages or other remuneration; .... at any time in a taxation year shall deduct or withhold from those payments any amount that may be determined in accordance with prescribed rates

and shall, at any time that may be prescribed, remit that amount to the Minister of Finance on account of the payee's tax for the year under this Act."

6.08 The Department made the following payments under contractual arrangements to three individuals for full time services. The Department did not withhold the amount to be remitted to the Minister of Finance as required by The Income Tax Act.

Contract Period	Amount	Paid
September 1, 1986 to August 31, 1988	$113,088.00	$4,712.00 monthly
August 25, 1986 to August 24, 1987	$ 47,580.00	$3,965.00 monthly
January 1, 1987 to December 31, 1987	$ 65,454.48	$5,454.54 monthly

FARMERS' OIL ROYALTY REFUND ACT

6.09 Each government agency has a responsibility to ensure its transactions are properly authorized by management in accordance with relevant legislation and in appropriate amounts. In order to adequately discharge this responsibility, each agency must have in place a system of management controls sufficient to satisfy management that the above legislative responsibilities are complied with.

6.10 An appropriation for payment of refunds under The Farmers' Oil Royalty Refund Act was provided in the Agricultural Division of the Saskatchewan Heritage Fund. The Heritage Fund (Saskatchewan) Act authorizes the Minister of Agriculture to pay these refunds.

6.11 The program was administered by the Department of Finance and payment of refunds was made by the Department of Agriculture based on a payee listing provided by the Department of Finance.

6.12 During the audit, it was noted the Department of Agriculture had not documented a system sufficient to determine that the payee listing provided by the Department of Finance represents a lawful, proper and accurate request for payment of refunds under The Farmers' Oil Royalty Refund Act.

6.13 I am unable to determine that the rules and procedures applied by the Department were sufficient to monitor the system established to ensure this public money was properly administered.

FARM PURCHASE PROGRAM

6.14 The Department makes payments under this program based upon eligibility information obtained by personal declaration from the individual on

the program enrollment form. The Department has instituted a post audit process to verify the eligibility declaration for a sample of program participants. During the audit, it was noted that as at March 1, 1989 the audit process was not complete for the year ended March 31, 1987 and the audit process for the year ended March 31, 1988 had not started. Consequently, the Department cannot assess whether payments are made only to eligible applicants.

6.15 An important aspect of management supervision is monitoring the continuing effectiveness of other controls. One specific method of monitoring is through analysis of the errors detected routinely by controls within the system.

6.16 The weakness noted allows the possibility of payments being made to ineligible individuals without ready detection.

LIVESTOCK INVESTMENT TAX CREDIT

6.17 The Livestock Investment Tax Credit Regulations provide in Section 5, in part:

> *"5(1) Where a person claims a tax credit on livestock sold through the Saskatchewan Beef Stabilization Board, the Saskatchewan Pork Producers Marketing Board or the Saskatchewan Sheep and Wool Marketing Commission, he shall retain the statement of settlement from the agency as documentation of the transaction.*
>
> *(3) No tax credit is payable with respect to livestock sold or slaughtered without the documentation described in this section."*

6.18 During the examination, it was observed that tax credits are issued with respect to livestock sold through the Saskatchewan Beef Stabilization Board, the Saskatchewan Pork Producers Marketing Board and the Saskatchewan Sheep and Wool Marketing Commission without the statement of settlement from the agency being required as documentation of the transaction.

6.19 In my opinion, tax credits issued with respect to livestock sold through these agencies during the year ended March 31, 1988 were not properly vouchered and certified.

PRAIRIE AGRICULTURAL MACHINERY INSTITUTE

6.20 In 1974, the Government of Saskatchewan entered into an agreement with the governments of Alberta and Manitoba regarding the funding for the Prairie Agricultural Machinery Institute (Institute).

6.21 Subsection 6(3) of the agreement states:

> *"Funding shall be provided on a yearly basis ... and shall be paid into the fund on or before the 31st day of December of each year."*

6.22 At December 31, 1987 the Institute had only received 76% of its required funding from the Government of Saskatchewan.

6.23 As a result the Government of Saskatchewan had not complied with the terms of its agreement with the governments of Alberta and Manitoba.

SASKATCHEWAN BEEF STABILIZATION BOARD

6.24 The Saskatchewan Beef Stabilization Board (Board) administers the Cow Calf to Finish Market Insurance Plan and the Feeder Finish Market Insurance Plan.

Management Control Deficiencies

6.25 During the audit it was noted stabilization levies charged to participants enrolled in the Feeder Finish Market Insurance Plan were not all recorded in the appropriate records.

6.26 It is essential that the control systems ensure that all transactions are recorded and recorded correctly.

6.27 Under the Feeder Finish Market Insurance Plan participants must pay stabilization levies on all enrolled animals that grade A or B at the time they are marketed, whether or not they are marketed through the Board. The Board has developed procedures to identify participants who market enrolled animals outside the Board and do not pay the applicable levies. The Board determines the amount of levies that are due and bills the participants.

6.28 During the audit, it was noted the Board billed participants for unpaid levies on animals marketed outside the Board. These levies due from participants were recorded in a subsidiary ledger but were not recorded in the general ledger. There were no established procedures in place to balance the levies due from the participants to ensure accuracy. It was determined that an adjustment of $252,096 was required to record the levies due from participants and levy revenue.

6.29 In my opinion, the accounting controls to ensure all transactions are properly recorded and classified in the correct accounting period could be improved.

6.30 My officials also noted there were insufficient controls to detect incorrect or unauthorized entries in the records. There was no evidence of independent approval of journal entries and bank reconciliations.

6.31 Important elements in a control system include independent approval of:

i) balancing routines performed by the accounting staff, and

ii) journal entries that adjust the books of account.

6.32 During the year, journal entries and bank reconciliations were prepared by the accounting clerk but there was no evidence of review and approval by an independent official.

Non-Compliance With Authorities

6.33 During the audit my officials observed the following instances of non-compliance with authorities.

6.34 The rules and procedures applied by the Board for payments made were inconsistent with the Cow Calf to Finish Market Insurance Plan Regulations. The rules and procedures applied by the Board allowed producers to exceed their contracts.

6.35 The Board has established a policy called the "Borrow Ahead" option which is not provided for in the Regulations. This option is sometimes given to producers although it is not provided for in the Regulations. It allows a producer who has fulfilled his current contractual obligations, but who has his next fiscal year's animal production ready to slaughter, to receive stabilization payments for those animals in this fiscal year rather than next. Typically, these are cases where a producer would normally slaughter his animals in April or May every year but, in 1988, animals were ready for slaughter in March. The Board allowed him to slaughter in March, even though he had slaughtered his "quota" earier in the fiscal year (April or May, 1987).

6.36 Thus, these producers received double stabilization payments in one fiscal year which do not appear to have adequate authority.

6.37 Subsection 7(2) of The Cow Calf to Finish Market Insurance Plan Regulations and The Feeder Finish Market Insurance Plan Regulations state:

> *"After the end of each quarter and on notification from the board, the department shall pay into the account an amount equal to the levies charged to participants for that quarter from funds appropriated under the Act."*

6.38 During the year, it was observed that the Board did not notify the Department of Agriculture of the total amount of levies charged to the participants of the plans. The Board's billing to the Department of Agriculture included only the amount of the levies collected each quarter. The billings should also have included $1,689,899 of levies charged to the participants and which were not collected by the Board as at March 31, 1988.

6.39 As at December 31, 1988 the Board had not billed the Department of Agriculture for these amounts.

6.40 As a result, the Board has not complied with subsection 7(2) of The Cow Calf to Finish Market Insurance Plan Regulations or The Feeder Finish Market Insurance Plan Regulations.

6.41 The audit also revealed that expenditures had been made for which there was no authority due to the Board exceeding borrowing limits as set out under The Agricultural Returns Stabilization Act.

6.42 Section 9 of The Agricultural Returns Stabilization Act established the conditions upon which the Minister of Finance can lend to the Saskatchewan Agricultural Returns Stabilization Fund which is administered by the Board.

6.43 The Lieutenant Governor in Council by O/C 1040/85 established the borrowing limit for loans to the Saskatchewan Agricultural Returns Stabilization Fund at $50 million.

6.44 It was noted that on May 25, 1987 the Board had borrowed $1.699 million in excess of the authorized amount. It was further noted that in July, 1987 borrowing had been reduced to less than the authorized amount.

SASKATCHEWAN SHEEP AND WOOL MARKETING COMMISSION

6.45 The Saskatchewan Sheep and Wool Marketing Commission (Commission) operates under The Natural Products Marketing Act, 1978. The Act permits the Commission to issue marketing orders.

6.46 The audit revealed that the Commission's systems were not adequate to ensure compliance with all marketing orders. The following deficiencies were noted.

Check-Off Fees

6.47 Marketing Order No. 3/87 requires the Commission to collect a check-off fee. This fee is payable for Saskatchewan sheep and wool marketed either through the Commission or through livestock dealers, processors, sheep associations, and wool dealers. The Commission does not have a system in place to ensure this fee is collected for Saskatchewan sheep and wool marketed outside of the Commission. It also does not have a system to ensure that where check-off fees are collected outside of the Commission they are sent to the Commission.

Producer Registration

6.48 Marketing Order No. 2/78 requires the Commission to have a system of producer registration and to register all producers upon receipt of a valid application form. The order also states that a producer shall not sell sheep without having completed an application for registration.

6.49 The Commission does not have a system in place to ensure all producers who sell sheep, register with the Commission.

Interprovincial or Export Trade Levies

6.50 The Saskatchewan Sheep and Wool Levies (Interprovincial and Export Trade) Order states that every producer shall pay to the Commission a levy of $1 per head on sheep and $.02 per pound of wool marketed by him in interprovincial or export trade.

6.51 The Commission does not have a system in place to ensure all producers who market interprovincially or by export remit these levies.

DEPARTMENT OF CONSUMER AND COMMERCIAL AFFAIRS

Table of Contents

	Paragraph
Agricultural Implements Board	7.00
Computer equipment	7.08
Mail delivery	7.12

7

DEPARTMENT OF CONSUMER AND COMMERCIAL AFFAIRS

AGRICULTURAL IMPLEMENTS BOARD

7.00 In November, 1985 the Department of Consumer and Commercial Affairs (Department) became responsible to administer The Agricultural Implements Act (Act).

7.01 Section 52 of the Act states:

> *"Sums required for the purposes of this Act may be paid from moneys appropriated by the Legislature for such purposes."*

7.02 In 1986 the Estimates had a separate appropriation under the Department of Agriculture for the cost of administering the Act.

7.03 After that date a separate appropriation for the costs of administering the Act has not been set out in the Estimates.

7.04 For the year ended March 31, 1988, $33,800 was spent to administer the Act. These costs were charged to the appropriation for the Department called Licensing and Investigation.

7.05 In my opinion, the Licensing and Investigation appropriation was applied in a manner not authorized by the Legislative Assembly.

7.06 This matter was reported to the Minister in charge of the Department.

7.07 The Minister has advised me that:

- from an administration point of view the Department does not support a separate appropriation;
- the Department recognized the law required a separate appropriation;
- the Department asked Treasury Board to set up a separate appropriation in the Estimates;
- Treasury Board denied the Department's request;
- the Department intends to introduce changes to the Act to correct the problem. The changes would not be made until other changes to the Act are required.

COMPUTER EQUIPMENT

7.08 The Department is renting computer equipment from Saskatchewan Property Management Corporation (SPMC).

7.09 Section 17 of The Government Organization Act permits the minister to enter into agreements on behalf of the Department. Approval of the Lieutenant Governor in Council is required where the expenditures under an agreement are liable to exceed $10,000 in any fiscal year. Also according to the Financial Administration Manual (FAM) Section 552-6, issued by the Provincial Comptroller, a written contract is required when equipment is leased for more than one month.

7.10 The Department leased certain computer equipment from SPMC without a formal written agreement. Also the Department did not obtain approval of the Lieutenant Governor in Council. Total payments made to SPMC for computer equipment amounted to $98,000. Therefore, the Department did not comply with Section 17 of The Government Organization Act and FAM Section 552-6.

7.11 Also, on March 17, 1987, the Department signed a contract for the rental of certain word processing equipment from the Department of Supply and Services (now SPMC). Under this contract the Department of Consumer and Commercial Affairs was not required to pay maintenance charges for the first year of the contract. However, the Department paid maintenance charges totalling $30,722 to SPMC for the first year of the contract.

MAIL DELIVERY

7.12 The Department uses SPMC's mail delivery services.

7.13 The Department paid SPMC $254,100 in 1987/88 for mail delivery.

7.14 The Department does not have a written agreement or arrangement for the fees charged by SPMC.

7.15 There is also an absence of records at the Department to verify the accuracy of the invoices rendered by SPMC for the delivery charges.

7.16 In my opinion, the payments for delivery charges were not capable of being properly vouchered by the Department because they did not have records to verify the accuracy of the charges.

DEPARTMENT OF EDUCATION

Table of Contents

	Paragraph
Community Colleges	8.00
Mistikwa Community College	8.00
Prairie West Community College	8.03
Saskatchewan Indian Community College	8.04
Prince Albert Institute of Applied Arts and Sciences	8.14
Saskatchewan Student Aid Fund	8.20
Segregation of duties	8.21
Verification of student loans and bursary applications	8.29
Disaster recovery	8.34
File changes	8.39
Non-compliance with authorities	8.43
School grants	8.47
Wascana Institute of Applied Arts and Sciences	8.53

8

DEPARTMENT OF EDUCATION

COMMUNITY COLLEGES

Mistikwa Community College

8.00 When a person's duties permit that person to conceal an error or fraud there is inadequate segregation of duties.

8.01 During the audit the following inadequate segregation of duties in the management control systems were noted.

8.02 One person was in complete control over journal entries. That is, the person could both prepare and authorize the journal entries. This person also controlled disbursements from the bank account and prepared the bank reconciliation.

Prairie West Community College

8.03 The Community Colleges Act requires Departmental approval for all fixed asset additions and disposals. Formal departmental approval has not been obtained for fixed asset additions and disposals.

Saskatchewan Indian Community College

8.04 During the audit the following deficiencies in the management control systems were noted.

8.05 The College did not have a procedure to ensure adequate insurance coverage was in place for the assets of the college.

8.06 The College has written agreements with individual Indian districts making them responsible to obtain insurance coverage for College assets.

8.07 There were no procedures to ensure all districts obtained insurance coverage.

8.08 There was a fire at one of the districts. There was no insurance coverage for the assets at that district. The book value of the assets lost was $26,000.

8.09 In order to safeguard and control public property it is necessary to have a record of the assets for which an organization is responsible. It was observed that there was not a detailed fixed asset record maintained. As a result of this weakness, fixed assets may be lost or misappropriated without ready detection.

8.10 In addition, the following instances of non-compliance with authorities were noted.

8.11 The Community Colleges Act requires that all cheques and supporting data be reviewed by two authorized cheque signers. Currently, cheques issued for a value of $2,000 or less are reviewed by only one cheque signer.

8.12 The Community Colleges Act also requires the Department's approval for all fixed asset additions and dispositions. Formal Department approval has not been obtained for any fixed asset additions and dispositions.

8.13 Permanent employees are not covered by a superannuation plan as required by The Community Colleges Act.

PRINCE ALBERT INSTITUTE OF APPLIED ARTS AND SCIENCES

8.14 Officials of the Department of Education administer the Prince Albert Institute of Applied Arts and Sciences Revolving Fund

8.15 The Revolving Fund is used in part to finance and account for the purchase and sale of books and supplies.

8.16 During the audit my officials observed that employees had not followed procedures established by management with the result that the risk was increased that errors or fraud might occur and not be detected.

8.17 The procedures established for the recording of cash receipts were not followed. Officials responsible for the recording of cash receipts recorded the name of the remitter and the date but failed to record the amount of the receipt. These officials also failed to restrictively endorse all cheques and money orders immediately upon receipt.

8.18 Since the amount of the receipts was not noted, it was not possible to ensure that all money received was deposited.

8.19 The Minister informed me that corrective action was taken and employees are now following established procedures.

SASKATCHEWAN STUDENT AID FUND

8.20 The Fund is administered by The Trustees of the Saskatchewan Student Aid Fund.

Segregation of Duties

8.21 During the audit it was noted that there was inadequate segregation of duties over loan disbursements.

8.22 Segregation of duties is inadequate when one employee can conceal errors or fraud.

8.23 Because of the concentration of duties in computer systems, access to the computer must be restricted to obtain a segregation of duties.

8.24 During the year, employees had unrestricted access to the Student Application and Payment Processing Computer System. Employees also used common identification codes.

8.25 As a result of this weakness, it is possible for employees to record fictitious student loan or bursary applications, mark them "verified", and mark them to indicate enrolment in an advanced educational institution was confirmed, without ready detection. These procedures could result in the loan being approved for payment and an Electronic Funds Transfer being made to an unauthorized bank account.

8.26 The possibility also exists of unauthorized changes being made to valid application data and loan applications being inappropriately authorized.

8.27 These weaknesses could also result in unauthorized payments being made.

8.28 Also the Trustees use microcomputers to calculate interest writedowns, determine students' minimum loan repayments and loan remissions and to enter loan repayments into the main computer. A microcomputer is used to keep the general ledger for the Trustees. There were inadequate restrictions on the access to microcomputers, therefore, allowing the possibility of unauthorized usage.

Verification of Student Loan and Bursary Applications

8.29 During the audit, it was noted there were insufficient procedures in place to verify the critical information provided by applicants in loan and bursary application forms. Also, the Trustees did not have a strategy in place to detect invalid bursary and loan payments.

8.30 The Trustee's procedures were limited to checking applications for completeness. The only documents required to accompany an application were immigration and enrolment information documents.

8.31 The lack of adequate control procedures allows the possibility of loan and bursary assistance payments being made that do not meet established eligibility criteria.

8.32 As a result, bursary and loan assistance payments were not properly vouchered to ensure they were in compliance with The Saskatchewan Assistance and Student Aid Fund Act, 1985 and the Regulations and to ensure the safeguarding of public money.

8.33 During the year, the Trustees made plans to expand pre-payment verification. These planned procedures are to include:

- checking with Saskatchewan Government Insurance to validate vehicle asset information;
- checking with the Department of Health to ensure SHSP number accuracy;
- checking with Department's files to verify the applicant's high school graduation date;
- requiring parents' income tax forms to be submitted at the time of application.

These procedures, however, were not planned to be operational until the 1988/89 fiscal year.

Disaster Recovery

8.34 When computers are used it is desirable to have a documented plan for the reconstruction of computer files to ensure that continuous operations can be maintained when computer files, documentation or equipment are damaged or destroyed.

8.35 This plan would cover the following:

i) detailed steps to be carried out in reconstructing files,

ii) the person responsible for carrying out the various steps,

iii) applications to be given top priority in reconstruction, and

iv) alternative manual procedures to be followed during the recovery period.

8.36 In addition, one back-up copy of master files, programs and documentation should be stored at a safe off-site location. These can be used in the event that copies at the Trustee's premises are accidentally damaged or destroyed.

8.37 During the audit my officials noted the Trustees did not have a documented and tested plan to use if computer files, programs and documentation are accidently damaged or destroyed.

8.38 Also, regular back-up copies of computer programs and data files were not stored at another location.

File Changes

8.39 The Trustees keep computer files called Criteria Master File and Student Master File. The information recorded in these files is used to ensure only correct payments are made.

8.40 During the audit my officials noted there was no evidence employees checked the accuracy of the information that was recorded in the above files.

8.41 The absence of evidence that information was checked provides no assurance to supervisory staff that assigned tasks have been carried out.

8.42 This weakness allows the possibility of incorrect transactions without ready detection.

Non-Compliance With Authorities

8.43 In addition to the foregoing control deficiencies, my officials noted the following non-compliance with authorities.

8.44 Subsection 9(1) of The Student Assistance and Student Aid Fund Act, 1985 states:

> *"9(1) The trustees shall, in accordance with The Tabling of Documents Act, prepare and submit to the minister a report respecting the administration of the fund in each fiscal year, including statements respecting the portions of the fund used respectively for loans, bursaries and scholarships."*

8.45 Subsection 3(2) of The Tabling of Documents Act states:

> *"Where a provision in an Act requires that a document be laid before or submitted to the Legislative Assembly, the document shall be forwarded within ninety days after the end of the period in respect of which the document is prepared, by the proper officers of the department, board, commission or agent of the Government of Saskatchewan in respect of*

which the document is prepared, to the Lieutenant Governor in Council, the member of the Executive Council or such other person as the Act pursuant to which the document is prepared directs the document to be forwarded for such purpose."

8.46 At the date of this report the Trustees had not submitted to the minister financial statements for the year ended March 31, 1988. Accordingly, they have not complied with the above law.

SCHOOL GRANTS

8.47 During the audit my officials noted the following payment that was not in compliance with proper authority:

8.48 Three Northern School Divisions are entitled to receive a grant known as the Northern Student Differential grant. Clause 61(n) of The Education Regulations, 1986 under The Education Act provides the following formula to determine such a grant:

"for each northern school division the product of:

i) an amount specified in Table 12 as the northern differential

ii) the number of recognized full-time equivalent pupils; and

iii) the appropriate northern factor for school division."

8.49 Clause 60(1)(g) of the Regulations defines full-time equivalent pupils as follows:

"g) "Full-time equivalent pupils" means with respect to a program of study, the number of pupils equal to the product of:

i) the number of pupils enrolled in the program; and

ii) the percentage of instructional time devoted to instruction in the program to a maximum of:

(A) 75% of the instructional time available in a school week in the case of pupils enrolled in kindergarten to year 6 in a language program or kindergarten to year 12 in any other program; or

(B) 60% of the instructional time available in a school week, in the case of pupils enrolled in year 7 to year 12."

8.50 The Department did not apply the maximum stipulated in clause 60(1)(g) of the Regulations. Accordingly, the Northern School Divisions were

overpaid in the amount of $376,600. Department officials informed me the Regulations have now been changed to allow the Department to pay the grants without applying the maximum.

8.51 My officials also noted operating school grants for the year ended March 31, 1988 were not paid according to the Regulations which were in force.

8.52 These operating grants were paid according to Regulations dated August 8, 1988.

WASCANA INSTITUTE OF APPLIED ARTS AND SCIENCES

8.53 Officials of the Department of Education administered the Wascana Institute of Applied Arts and Sciences Revolving Fund.

8.54 The Revolving Fund was used in part to finance and account for the Training to Industry Program.

8.55 Essential to an adequate system of management controls are rules and procedures to ensure that all costs and revenues applicable to this program are recorded.

8.56 Employees responsible for recording revenues and expenses were not made aware of and did not receive updated information on all active contracts. As a result, the system permitted revenue and costs for entire contracts to be missed.

8.57 During the audit, it was discovered in some cases that costs of programs delivered were not recorded until more than six months after the contract had expired and in other cases were not identified until procedures requested by my officials were carried out. This delay in the identification of costs in turn caused a delay in the billing of the program costs to appropriate organizations.

8.58 During the audit it was discovered that revenue totalling $130,080 and expenditures totalling $142,765 had not been recorded due to the lack of accounting system controls discussed above.

8.59 In my opinion, essential records were not maintained and the procedures applied were not sufficient to effectively check the assessment and collection of public money.

8.60 I have been informed that corrective action has been taken to prevent a similar occurrence in the future.

8.61 In addition to the deficiency in the management control system, my officials noted the following instance of non-compliance with authorities.

8.62 Subsection 17(4) of The Department of Advanced Education and Manpower Act states:

> *"the minister shall pay to the Consolidated Fund all or any part of any surplus in the revolving fund that Treasury Board may direct."*

8.63 Treasury Board directives, as outlined in the Financial Administration Manual, Section 1010 state:

> *"at the close of the fiscal year, if the net operating surplus...exceeds the maximum, the following procedures are required:*
>
> - *Any operating surplus in excess of the maximum shall, as soon as possible after the close of the fiscal year, be paid into the Consolidated Fund."*

8.64 At the close of the fiscal year ended March 31, 1987, the net operating surplus was $39,020. The maximum surplus that the Revolving Fund was permitted to retain was $20,000.

8.65 The excess amount of $19,020 had not been paid into the Consolidated Fund at October 17, 1988.

8.66 I have been informed that the surplus has now been paid into the Consolidated Fund.

9

DEPARTMENT OF ENERGY AND MINES

9.00 Section 25 of The Department of Finance Act, 1983 states:

"All public money other than:

(a) public money over which the Legislature has no power of appropriation; and

(b) money otherwise specially disposed of by the Legislature;

is to form one consolidated fund to be appropriated for the public services of Saskatchewan."

9.01 According to section 19 of The Heritage Fund (Saskatchewan) Act all non-renewable resource revenue is required to be credited to the Resources Division of the Saskatchewan Heritage Fund. Clause 2(1)(i) defines non-renewable resource revenue. The definition includes all moneys received by the Crown under: (a) The Freehold Oil and Gas Production Tax Act and the Regulations made under that Act; (b) The Crown Minerals Act and Regulations made under that Act.

9.02 The appropriation principle referred to in section 25 of The Department of Finance Act, 1983 applies equally to the Saskatchewan Heritage Fund.

9.03 Prior to the fiscal year 1986/87, the Department was making grants for petroleum and natural gas exploration, conservation and development under Section 208 of The Oil and Gas Incentive Regulations, 1978, which state:

"(1) The minister shall grant to each person from time to time, out of such person's approved expenditure credit bank at that time, an amount not exceeding the lesser of:

(a) the amount of such person's approved expenditure credit bank at that time; and

(b) the amount of such person's approved expenditure grant account at that time.

(2) Amounts granted to any person pursuant to subsection (1) from time to time shall be paid to such person out of the Saskatchewan Heritage Fund.

9.04 The amount of grants payable for approved expenditure was dependent on the amount of oil produced prior to 1986.

9.05 In the 1986/87 fiscal year, no payments were made because no appropriation was voted by the Legislature. At March 31, 1987, the Department had an outstanding commitment of $26,688.490 for this grant program.

9.06 In the 1987/88 fiscal year, the following regulations were changed to revise the method of making these grant payments:

(a) The Oil and Gas Incentive Regulations, 1978 (O.C. 916/87).
(b) The Petroleum and Natural Gas Regulations, 1969 (O.C. 915/87).
(c) The Freehold Oil and Gas Production Tax Regulations, 1983 (O.C. 914/87).

9.07 Under these amended regulations, the producers were required to pay oil royalties, taxes or cash bonus bids in the 1987-89 period in order to be eligible to obtain the incentive credits which they had accumulated prior to March 31, 1987.

9.08 Upon receipt of an application from the producer for payment of outstanding credits, a portion of oil royalties, taxes or cash bonus bids will be refunded in accordance with the formula established in the amended regulations. These refund payments are accounted for by the Department as reductions of current year's revenue, with an equivalent reduction in the incentive grant credit due to the producers. This method of accounting results in no disclosure of the $14,241,689 expended under this program in 1987/88.

9.09 In my opinion, the amendments to the regulations mentioned above did not change the nature of this incentive grant program. These payments should have been accounted for either as budgetary expenditure, as was done prior to 1986/87, or as remissions of royalties, taxes and cash bonus bids.

10

DEPARTMENT OF ENVIRONMENT AND PUBLIC SAFETY

REVENUE

10.00 Each government agency is responsible to collect revenues within the requirements of the governing statutes.

10.01 My representatives observed the following instances of lack of compliance with statutes regarding revenue collections.

10.02 The Department of Environment and Public Safety collects revenue for the inspection of a variety of equipment. The fees charged for these inspections are specified in various regulations.

10.03 The Government of Saskatchewan entered into a contract with the Government of Canada (Canada) under The Federal-Provincial Agreements Act for inspection of facilities under federal jurisdiction. The agreement specified a fee to be charged to Canada in the amount specified in the applicable regulations plus a surcharge of 200%.

10.04 Inspections performed for Canada have been continued past the March 31, 1985 expiry date and approximately $19,400 has been collected for the year ended March 31, 1988. The surcharge collected was 125% based on a verbal understanding with officials of Canada.

10.05 Section 4 of The Federal-Provincial Agreements Act requires the Lieutenant Governor in Council to approve the terms of agreements.

10.06 Since the Lieutenant Governor in Council has not approved changes to the surcharge of 200% and because there is no written agreement, $19,400 has been collected without authority. In addition, there has been non-compliance with Section 4 of The Federal-Provincial Agreements Act.

10.07 Management has indicated that appropriate agreements are now in force commencing April 1, 1988.

10.08 The Fire Prevention Act, 1980 states:

> *"22(1) As a contribution to the cost of the fire prevention services provided for in this Act, every company ... shall pay to the Minister of Revenue and Financial Services a fee...."*
>
> *(4) Any moneys paid pursuant to subsection (1) are to be deposited in the consolidated fund and dedicated to paying the expenses incidental to the administration of this Act and the Regulations."*

10.09 The cost to administer the Act is paid out of a consolidated fund appropriation.

10.10 Money received under the Act is deposited in the consolidated fund. However, when money received exceeds the cost of administration, the excess is not set aside within the consolidated fund.

10.11 During the year, revenue collected under Section 22 of The Fire Prevention Act, 1980 was approximately $2 million and the cost to administer the Act was approximately $1 million.

10.12 The failure to set aside the excess of receipts over costs results in the excess being appropriated for purposes other than those set out in the Act. Therefore, the requirement to dedicate revenue to expenses has not been satisfied.

DEPARTMENT OF FINANCE

Table of Contents

	Paragraph
Public accounts	11.00
Education and health tax	11.05
Mortgage Protection Plan	11.08
Municipal Employees Superannuation Fund	11.16
Public Employees Benefits Agency	11.20
Supervisory controls	11.23
Premium revenue	11.27
Investment income	11.30
Public Service Superannuation Board	11.34
Management control deficiencies	11.36
SaskPen Properties Ltd.	11.41
Sinking funds	11.47

11

DEPARTMENT OF FINANCE

PUBLIC ACCOUNTS

11.00 My auditor's report on the 1988 Consolidated Fund financial statements contains a reservation of opinion.

11.01 The auditor's report reads in part as follows:

> *"I have examined the statement of financial position of the Consolidated Fund as at March 31, 1988 and the statements of net debt, revenue and expenditure, loan, investment and deposit activity and financing and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.*
>
> *Loans to crown entities include disbursements to Saskatchewan Property Management Corporation of $340,836,000 (1987 - $181,933,000). It is inappropriate to record these disbursements as assets of the Consolidated Fund since their repayment depends upon future appropriations from the Consolidated Fund. Accordingly, these disbursements should have been recorded as expenditures. If these disbursements had been recognized as expenditures, loans to crown entities would have been reduced by $340,836,000 (1987 - $181,993,000), net debt would have been increased by $340,836,000 (1987 - $181,993,000) and excess of expenditure over revenue would have been increased by $158,843,000 (1987 - $181,993,000).*
>
> *In my opinion, except for the failure to record disbursements as expenditures as described in the preceding paragraph, these financial statements present fairly the financial position of the Consolidated Fund as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles disclosed in Note 1 to the financial statements applied on a basis consistent with that of the preceding year."*

11.02 Briefly, the auditor's report is advising that the funds required by Saskatchewan Property Management Corporation (SPMC) to repay the loan to the Consolidated Fund must be paid from the Consolidated Fund to SPMC and, therefore, there is no financial asset.

11.03 If it is argued that this loan is, in part, an attempt to record the acquired physical assets transferred to SPMC, it is my opinion that in order to record this asset it would be necessary to change the accounting policy for the

Consolidated Fund from that of reporting acquired physical assets at $1.00 to that of reporting acquired physical assets at depreciated historical cost.

11.04 My auditor's report on the 1988 financial statements which combine the operations of the Consolidated Fund and the Saskatchewan Heritage Fund contains the same reservation of opinion.

EDUCATION AND HEALTH TAX

11.05 During the audit my officials noted that the Department had still not complied with the 1980 recommendation of the Standing Committee on Public Accounts (Committee). The Committee recommended that the procedures used in the Department be reviewed to ensure that there is a balance between the number of detailed field audits on the one hand and the costs of the audits on the other hand so that an effective check on the assessment of taxes is in place.

11.06 My officials noted that a study is underway to address the Committee's recommendation.

11.07 While there has been progress, I must continue to report there is no evidence that the rules and procedures applied are sufficient to secure an effective check on the assessment of Education and Health Tax revenue.

MORTGAGE PROTECTION PLAN

11.08 A study of the rules and procedures for the administration of the Mortgage Protection Plan revealed that the rules and procedures were not adequate to ensure compliance with the law.

11.09 Section 3 of The Mortgage Protection Act (Act) and Section 10 of The Mortgage Protection Regulations (Regulations) state the homeowner is eligible to receive benefits under the plan if the mortgage is against his principal residence.

11.10 Section 5 of the Act and subsections 4(2) and 12(1) of the Regulations require the amount of benefit be reduced by:

a) the amount interest payments are tax deductible, and

b) any amount received with respect to his mortgage from other government sources specified in the Regulations.

11.11 Currently, the homeowner completes an application for the Plan and signs a declaration. This declaration certifies that:

a) the information on the application is true and correct, and

b) the homeowner permanently resides in the residence noted in the application.

11.12 Officials review the application, declaration and any notices completed on the anniversary or renewal date ensuring their proper completion and the consistency of information provided.

11.13 Officials rely upon the homeowner's declaration to ensure compliance with the eligibility criteria set out in the above Regulations. The eligibility of the homeowners receiving benefits under this Plan was not further verified.

11.14 Therefore, in my opinion, incorrect payments can be made

11.15 Officials have advised me they are planning to audit a random sample of applicants. This audit will verify compliance with the eligibility criteria set out in the above Regulations. Officials have also advised me the results of the audit will be used to determine the cost/benefit of implementing verification procedures on an on-going basis.

MUNICIPAL EMPLOYEES SUPERANNUATION FUND

11.16 The Municipal Employees Superannuation Fund (MESF) was transferred to the Department of Finance on May 31, 1987.

11.17 My audit of MESF revealed that Department officials did not have a proper segregation of duties among employees.

11.18 The procedures allowed one employee to be in complete control of pension payments. This employee was responsible for the following procedures:

i) calculating the amount of pension or annuity payable,
ii) approving the pension payroll for payment,
iii) preparing bank reconciliations,
iv) handling questions from persons receiving pensions or annuities,
v) preparing and approving journal entries,
vi) controlling all accounting records including the preparation of the monthly trial balance, and
vii) preparing the financial statements.

11.19 Allowing one employee to have complete control allows a significant risk of error or fraud. It also allows any error or fraud to be concealed.

PUBLIC EMPLOYEES BENEFITS AGENCY

11.20 The Public Employees Benefits Agency (Agency) administers a number of plan related special purpose funds.

11.21 The Public Employees' Disability Income and Group Life Insurance Funds were established under subsection 31(2) of The Department of Revenue and Financial Services Act to be operated, administered and managed by the Agency.

11.22 My officials noted the following management control deficiencies.

Supervisory Controls

11.23 Important to an appropriate system of management controls are controls which permit management to effectively discharge its responsibilities of reviewing, analyzing and controlling operations of an organization. A key element of such a system is an effective interim financial reporting and monitoring system.

11.24 The procedures manuals include a section describing the monthly procedures and the year-end cut-off policies and procedures to be followed. The purpose is to ensure monthly and annual financial statements of the Funds can be properly prepared on a timely basis. For the year ended December 31, 1987, the required procedures were not performed until August, 1988.

11.25 In addition, there was no review by management to ensure that the procedures completed in August, 1988 were properly performed and that the annual financial statements were properly prepared.

11.26 These deficiencies in the control systems could result in the monthly and annual financial statements not being prepared on a timely basis, and accounting errors occurring without detection.

Premium Revenue

11.27 There was no evidence of any review being performed to ensure completeness of premium revenue as required by the procedures manual.

11.28 My officials were informed that assurance regarding completeness of premium revenue for the Group Life Fund is obtained from procedures performed by the insurance carrier. A review of the reports from the insurance carrier indicates that these procedures are designed to ensure the summary of deposits submitted by the Agency to the insurance carrier agrees with the deposits received by the insurance carrier. If a participating employer has not remitted the monthly premiums, there would be no deposit, and accordingly, this would not be detected by the procedures performed by the insurance carrier.

11.29 This deficiency in the control systems could result in incomplete premium revenue without detection in a timely manner.

Investment Income

11.30 By agreement the Agency has delegated the authority for the portfolio management of investments to an insurance carrier.

11.31 The Agency remains responsible to ensure that all investment income is received by the carrier.

11.32 The Agency did not check the accuracy of investment income, including dividend earnings for equity investments and interest earnings for bonds and short term investments until August, 1988.

11.33 This deficiency in the control system could result in errors in investment income which may not be detected on a timely basis.

PUBLIC SERVICE SUPERANNUATION BOARD

11.34 The Board is responsible for the Public Service Superannuation Plan, Saskatchewan Transportation Company Employees Superannuation Fund (S.T.C. Fund) and the Anti-Tuberculosis League Employees Superannuation Fund (Anti T.B. Fund).

11.35 Officials of the Public Employees Benefits Agency (Agency), Department of Finance administer the Public Service Superannuation Plan, S.T.C. Fund and Anti T.B. Fund.

Management Control Deficiencies

11.36 The Agency did not maintain records on a timely basis.

11.37 This weakness results in delays in preparing interim and annual financial statements and schedules. As a result, the management, the Board and the Legislative Assembly are not receiving timely information for planning and control purposes.

11.38 This weakness also resulted in the following non-compliance with authorities.

11.39 Section 69 of The Public Service Superannuation Act requires the Board to prepare a report and to have this report submitted to the Legislative Assembly within a specified time period. Such a report would include the financial statements and schedules for the following:

1) Public Service Superannuation Board, which includes the Public Service Superannuation Plan and Employees' Savings Account

2) S.T.C. Fund

3) Anti-T.B. Fund

11.40 At March 3, 1989, the reports for the 1985/86 and 1986/87 fiscal years had not been tabled in the Legislative Assembly. As a result, the Board has not complied with the legislative requirements of Section 69 of the Public Service Superannuation Act.

SASKPEN PROPERTIES LTD.

11.41 SaskPen Properties Ltd. (SaskPen) is a crown agency created under The Business Corporations Act. It invests in real property and leaseholds out of funds provided by a number of crown administered pension funds.

11.42 A Board of Directors (Board) is responsible to assess the performance of management. In order to carry out this function the Board needs financial information. As a normal part of this process a Board would approve an annual budget for a corporation. They would later receive monthly financial statements presenting actual performance compared to the approved Budget.

11.43 The audit revealed that the corporation did not have a budget. There was no evidence that the Board reviewed the monthly financial statements as there were no Board minutes.

11.44 In my opinion, the Board did not have sufficient information to assess the performance of management.

11.45 Without minutes of the Board, significant decisions of the Board are not documented. Therefore, it is not possible to determine if the transactions entered into by management are within the authority delegated to management by the Board.

11.46 These matters were reported in my 1987 annual report.

SINKING FUNDS

11.47 Sinking Funds is a name given to money put aside in special purpose funds by the government to repay money it has borrowed. This money is invested until the day the government is required to repay money it has borrowed.

11.48 Treasury Board has issued directives under The Department of Finance Act, 1983, governing the accounting for the investments held in the Sinking Funds.

11.49 Officials of the Department have changed the way they account for Sinking Funds. The new method of accounting for Sinking Funds is not in accordance with the Treasury Board directive.

DEPARTMENT OF HEALTH

Table of Contents

	Paragraph
Postage	12.00
Saskatchewan Medical Care Insurance Commission	12.03
Wascana Rehabilitation Centre	12.07
Whitespruce Youth Treatment Centre	12.16

12

DEPARTMENT OF HEALTH

POSTAGE

12.00 Saskatchewan Property Management Corporation (SPMC) bills the Department for postage. The department paid SPMC approximately $1 million in 1987/88 for postage.

12.01 The procedures used in the Department were not adequate to ensure the accuracy of the charges for the services rendered.

12.02 Therefore, payments to SPMC for postage were not capable of being properly vouchered or certified.

SASKATCHEWAN MEDICAL CARE INSURANCE COMMISSION

12.03 Section 41 of The Department of Finance Act, 1983 states:

> *"Notwithstanding the provisions of any other Act, no department, board, commission or agent of the Government of Saskatchewan and no Crown Corporation shall borrow any moneys without the approval of the Minister."*

12.04 The bank account used by the Saskatchewan Medical Care Insurance Commission (Commission) was overdrawn on several occasions during the year.

12.05 There was no evidence that the Commission had approval from the Minister of Finance to borrow money.

12.06 Approval has now been obtained from the Minister of Finance authorizing future overdrafts.

WASCANA REHABILITATION CENTRE

12.07 The Wascana Rehabilitation Centre (Centre) is engaged in a $50 million construction project. It is my understanding, when the government approved this project, it intended the Centre to get the money to pay for this project from three sources:

- general revenues of the Province for $32.5 million.
- employer premiums from the Workers' Compensation Board (WCB) for $12 million.
- the federal government Department of Veteran Affairs (DVA) $5.5 million.

12.08 It is my opinion that the Centre should have written agreements with the funding agencies. Written agreements are necessary to protect the rights and interests of all parties and to avoid future misunderstandings. Ideally these agreements should be in place before money is spent.

12.09 The Centre has a written agreement with the Minister of Health and Saskatchewan Property Management Corporation (SPMC) for the $32.5 million to be received from general revenues of the Province.

12.10 This agreement allows the Centre to borrow $32.5 million from SPMC. The Minister of Health agreed to pay off the Centre's loan out of general revenues over a period of years.

12.11 There is a 1985 Order-in-Council authorizing the WCB to enter into an agreement to provide capital funding up to $12 million for that part of the project being developed for services to injured workers. There is no written agreement with WCB. However, the Centre is receiving money from WCB for the project.

12.12 The Centre does not have a written agreement with DVA for the Veterans wing of the project. The Centre has incurred costs of $3.9 million for the DVA portion of the project. However, the Centre has only received $1 million from DVA.

12.13 The Centre has financed the shortfall of receipts from DVA out of the SPMC loan. As stated earlier, future general revenues of the Province will be needed to repay the SPMC loan.

12.14 I am informed by the Centre that agreements with WCB and DVA are being negotiated.

12.15 I recommend that the Centre complete these written agreements as quickly as possible in order to protect the rights of all parties.

WHITESPRUCE YOUTH TREATMENT CENTRE

12.16 During the audit of the Whitespruce Youth Treatment Centre (Centre) my officials noted the following deficiencies in the rules and procedures to safeguard and control public money.

12.17 Segregation of duties is not adequate when one person can conceal an error or fraud.

12.18 The rules and procedures applied did not adequately segregate the duties of employees.

12.19 The Centre uses a bank to prepare the payroll. The bank makes payments based upon information provided by the Centre.

12.20 One employee had the authority to authorize the bank to make payments. The employee also kept the records. There was no check on the work of that person to ensure that only bonafide employees were paid and in the correct amounts.

12.21 In addition, there was no procedure to check that the bank only paid the amount that was authorized by the Centre.

DEPARTMENT OF JUSTICE

Table of Contents

	Paragraph
Internal audit	13.00
Non-compliance with authorities	13.06
Land titles offices	13.07

13

DEPARTMENT OF JUSTICE

INTERNAL AUDIT

13.00 During the audit it was noted that the Department had not established a system to monitor compliance with its prescribed procedures for the collection, recording, and deposit of monies for services provided.

13.01 An important element in any system of management control is careful supervision by management. In larger organizations, no one manager can have direct personal knowledge of every facet of the organization. Supervisory responsibilities, therefore, are delegated throughout the organization. It is important, however, to retain the involvement of senior management at key spots within the control system to detect breakdowns in the system. Where senior management is not able to personally exercise this control, for reasons such as decentralization in larger organizations, it is usual to have an internal auditor. The internal auditor reviews and tests the systems of internal control throughout the organization to ensure compliance with senior management's prescribed procedures and reports to senior management.

13.02 There is no internal auditor.

13.03 Presently, the Department operates on a decentralized basis in that responsibilities for the collection of revenue and ensuring compliance to related legislation and established departmental procedures are delegated to regional offices. These include Correctional Centres, Provincial Courts, Land Titles Offices, Sheriff Offices, and Local Registrar Offices. These regional offices remit revenues collected to the central office on a regular basis and submit periodic reports on their financial activities. The central office staff's procedures are limited to checking the accuracy of the information received from the regional offices.

13.04 In my opinion, the present procedures allow the possibility of:

i) services being provided without collections of monies due to the Department,
ii) errors occurring either in calculation of monies due to the Department or in the recording of monies received,
iii) the misappropriation of monies received, and
iv) non-compliance to related legislation and established departmental policy,

without detection on a timely basis.

13.05 Management of the Department have informed me that a formal internal audit process has subsequently been established. Internal field audits were underway on a full time basis as of November, 1988.

NON-COMPLIANCE WITH AUTHORITIES

13.06 In addition to the foregoing management control deficiencies, my officials noted the following non-compliance with authorities.

Land Titles Offices

13.07 Regina, Moose Jaw and Saskatoon Land Titles Offices were not following up their overdue accounts.

13.08 Subsection 3(2) of the Land Titles Fees Regulations state:

> *"each registrar shall collect all fees assessed against a deposit account which has an insufficient balance in the month following the month in which the service was rendered, and shall submit those fees to the Minister of Finance at the end of the month in which they are collected."*

13.09 Furthermore, Treasury Board Accounting and Reporting Policy Manual (TBARM) AR621 requires uncollectible receivables be promptly identified and submitted for write-off in accordance with Treasury Board policy and Provincial Comptroller's directives.

13.10 In my opinion, the above Land Titles Offices were not in compliance with subsection 3(2) of the Land Titles Regulations and AR621 of TBARM.

DEPARTMENT OF PARKS, RECREATION AND CULTURE

Table of Contents

	Paragraph
Forest Renewal and Development Fund	14.00
Non-compliance with authorities	14.05
Timber permits	14.06
Revolving Fund	14.11

14

DEPARTMENT OF PARKS, RECREATION AND CULTURE

FOREST RENEWAL AND DEVELOPMENT FUND

14.00 The Forest Renewal and Development Fund was established by a change to The Department of Parks and Renewable Resources Act. This change received Royal Assent on November 6, 1987, but was deemed to have been in force on and from January 1, 1987. This fund is administered by officials of the Department of Parks, Recreation and Culture.

14.01 The first receipt from the Government of Canada (Canada) for Saskatchewan's share of the Softwood Lumber Products Export Charges was received in August, 1987, covering the period January 1 to June 30, 1987. Monthly remittances were received for each month after that date. These receipts were deposited to the Consolidated Fund as Conditional Receipts.

14.02 During the audit, the following control weaknesses over this revenue were noted.

14.03 There were no procedures performed to verify the accuracy and completeness of the revenue received from Canada under The Softwood Lumber Products Export Charges Act (Canada). As a result, there is no assurance that the amount received from Canada is Saskatchewan's proper share.

14.04 As at March 31, 1988, there were no accounting records maintained for this Fund, and no documentation of the accounting policies to be used in the preparation of financial statements. As a result, management responsible for the Fund was not provided with financial information on a timely basis for planning and control purposes.

NON-COMPLIANCE WITH AUTHORITIES

14.05 The audit of the accounts of the Department revealed the following transactions which, in my opinion, were outside of its statutory powers.

Timber Permits

14.06 The Forest Regulations contain rules regarding timber permits. In order to issue a permit the rules require that:

- all expired permits must be returned

- if expired permits are lost the applicants must file an affadavit or declaration to that effect.

14.07 Timber permits are being issued without the return of prior permits, affadavit or declaration.

14.08 The Minister in Charge of the Department was advised of this matter last year. The Minister advised that the Department intended to continue with its present actions in this regard as to do otherwise would result in an unfair disruption to sawmills which operate on a year round basis. The Minister also advised that the Department would develop firm plans to remove section 14(c) of the Forest Regulations at the earliest appropriate time.

14.09 This matter was reported in my 1987 annual report.

14.10 At November 2, 1988 the Forest Regulations had not been changed to remove section 14(c).

Revolving Fund

14.11 The Department manages a fund called the Resource Protection and Development Revolving Fund.

14.12 The Department of Parks and Renewable Resources Act sets out the programs that can be financed through this fund.

14.13 The Department has financed the following programs which are not approved programs:

Program	Expenditures Financed
Fish enhancement	$ 244,073
Forestry (Reforestation)	1,045,508
Cottage lot lease program	179,829
	$1,469,410

14.14 Treasury Board has issued rules regarding the management of revolving funds. One of these rules is the requirement that quarterly financial statements for the fund be sent to Treasury Board staff.

14.15 These quarterly financial statements were not provided to Treasury Board staff.

DEPARTMENT OF SOCIAL SERVICES

Table of Contents

	Paragraph
Deficiencies in controlling overpayments	15.00
Absence of cost benefit analysis to identify cost effective corrective measures	15.11
Other audit observations	15.14

15

DEPARTMENT OF SOCIAL SERVICES

DEFICIENCIES IN CONTROLLING OVERPAYMENTS

15.00 In the fiscal year ended March 31, 1988, the Department of Social Services paid approximately $199 million to recipients of assistance under the Saskatchewan Assistance Plan (SAP).

15.01 A recipient of social assistance receives benefits based in part upon the recipient's personal declaration of circumstances.

15.02 Details of the conditions required for payment and amounts payable under specific circumstances are specified in The Saskatchewan Assistance Act and The Saskatchewan Assistance Regulations. These regulations governing the payment of assistance are complex and generally place the onus on the recipient to fully and accurately disclose the circumstances surrounding the need for assistance. The responsibility of the Department to verify the information provided by the recipient is restricted by resources available and has to be balanced against the additional requirement to be responsive to the needs of the recipient. Given these conditions, at times, assistance payments are made in excess of that permitted by legislation.

15.03 In order to monitor such overpayments with a view to controlling them, the Department has established a target error rate for overpayments of 4%. The comparison of the target error with the actual error was to be a measure of whether the overpayments for a given period had remained within acceptable limits.

15.04 Errors in social assistance payments result from two sources, namely, errors made by employees and errors made by recipients.

15.05 It is the responsibility of the Department, in administering SAP, to ensure that information provided by the recipients of assistance is verified for completeness and accuracy. To this end, the Department has established certain prepayment and postpayment verification procedures in order to control incorrect payments.

15.06 During the audit, it was observed that there were a number of instances where the established procedures had not been consistently and properly followed, and as a result incorrect payments had been made.

15.07 The consequence of not following the established procedures in all cases is that incorrect payments are made without ready detection.

15.08 Officials of the Department verified a sample of SAP cases, and concluded that for the current fiscal year, the estimated error rate was 8.7% ($17.3 million), down from 10.0% ($19.8 million) in the previous year.

15.09 The decrease in the error rate is attributed to a reduction in departmental errors as a result of the implementation of a new automated system for processing SAP payments. Errors made by employees dropped from 2.5% or $5.0 million for the 1986/87 year to 1.3% or $2.6 million for the 1987/88 year.

15.10 The remainder of the overpayments described above were due to recipient generated errors. Recipient generated errors caused most of the overpayments - 7.4% ($14.7 million) in 1987/88 (1986/87 - $14.8 million). Given the magnitude of these errors, there is need for further remedial action.

ABSENCE OF COST BENEFIT ANALYSIS TO IDENTIFY COST EFFECTIVE CORRECTIVE MEASURES

15.11 In previous annual reports, I reported that the Department should review procedures to ensure that there is a balance between the number of detailed investigations aimed at detecting and limiting overpayments on the one hand, and the cost of such investigations on the other, in order that measures established are cost effective.

15.12 The Deputy Minister wrote to me on August 5, 1988 and advised:

> *"The Department will certainly consider performing detailed cost/benefit analyses when we appear to be nearing a cost/benefit equilibrium. Until that time, we will continue to concentrate on high error components and will implement corrective measures on the basis of the on-going analysis of error rates."*

15.13 In my opinion, cost/benefit analysis would assist the Department in achieving its goal of implementing efficient and effective corrective measures. Given the constraints on the resources available to the Department and the magnitude of the recipient-generated errors described in paragraph 15.10 above such an analysis would provide assistance in establishing priorities among the various corrective measures being used or considered by the Department.

OTHER AUDIT OBSERVATIONS

15.14 My representatives were informed by officials of the Department that they had conducted fraud investigations on one hundred and thirty-one cases of which seventy-seven cases were referred to the police for investigation during the year.

16

DEPARTMENT OF SUPPLY AND SERVICES

16.00 In Chapter 20 of my 1987 annual report I commented $7.6 million in payments to the Saskatchewan Property Management Corporation were not properly vouchered or certified.

16.01 The vouchers supporting the payments contained the description:

"rental charges resulting from construction work in progress financed from 1985-1987"

16.02 I was specifically concerned about two payment vouchers. These vouchers were:

- rental charges resulting from construction work in progress Prince Albert $2,079,430

- rental charges resulting from construction work in progress 2340-50 Albert St. $2,082,802

16.03 I wanted to know what construction work in progress was carried out in 1985-87.

16.04 In my 1987 annual report I reported information was not provided to me in a timely manner. At April 30, 1988 I had not received all of the information I needed about these two payment vouchers.

16.05 My officials were subsequently informed the rental payments for these two properties were based on area of accommodation and rental rates per square meter.

16.06 Since information previously obtained indicated payments were for construction work in progress financed from 1985-87, I asked management to clarify the inconsistency.

16.07 My officials were subsequently informed:

- the payments made were for rent,

- the rent arose, in each instance, as a result of acquiring the facility by means of paying for the construction work done in the 1985-87 time period,

- the rental payments were not recoveries of work in progress.

16.08 However, no response was received from management to a request to supply evidence indicating the government's direction or authorization to pay base rent for the year ended March 31, 1987 on a selective basis only and not on all such properties.

16.09 During a meeting in November, 1988, my officials were informed that the Department paid base rent in 1986/87 on all properties transferred to SPMC on March 27, 1986. The information previously provided from SPMC records did not appear to support management's contention.

16.10 Management provided a document called "Asset Transfer Detail Document, Relating to Asset Transfer Agreements with the Province of Saskatchewan" to assist in clarifying the effective date of transfer of various real estate properties to SPMC. My officials reviewed this document and observed the following:

- Certain properties transferred to SPMC by a March 27, 1986 purchase agreement were not included in the subsequent valuation listing. This listing was used to determine the purchase price for the buildings transferred in that agreement,

- The Department paid rent to SPMC in 1986/87 for some properties that were not transferred to SPMC until 1987/88. These properties had an intended transfer date of April 1, 1987 as explicitly stated in a subsequent agreement dated May 25, 1988.

- In certain cases, the asset transfer detail documents indicated buildings were to be transferred in the March, 1986 purchase agreement but the lands related to these buildings were not to be transferred until April 1, 1987 pursuant to the May, 1988 agreement.

16.11 Because of the conflicting evidence as to an effective date of sale, I contacted my solicitor who conducted a search to determine if title transfers had been made which could be helpful in making a determination as to effective sale dates. I was advised that those titles for certain of the major properties which were searched by my solicitor had not been transferred. Furthermore, no Orders-in-Council have been made pursuant to subsection 25(1) of The Saskatchewan Property Management Corporation Act affecting the titles in question.

16.12 In my opinion, there should be adherance to required form or due process. This would require the timely completion of documents as events occur. If due process is not followed, it cannot be readily determined from the documentation what has actually transpired. Accordingly, the additional information and explanations I have been able to obtain lead me to draw the following conclusions:

- The Department of Supply and Services paid rent for the year ended March 31, 1987, on the properties claimed to be transferred to SPMC on March 27, 1986, on an inconsistent basis. For two properties, the Department paid rent for the year ended March 31, 1987 based on the area of accommodation and the rental rate per square meter. The rent paid for the other 22 properties was apparently based on a full recovery of the expenditure incurred to complete the projects, either in 1986/87 or over longer periods. In this latter situation, neither rental charges relating to the recovery of costs incurred in completing work in process transferred nor rental charges for landlord maintenance jobs are called for by the terms of documentation submitted for examination.

- An effective date of transfer for the various properties cannot be ascertained since the records are, in many respects, contradictory. Accordingly, the Department may have paid base rent to SPMC for properties that were not owned by SPMC.

- Based on the evidence, I am unable to determine whether the rental payments totalling $7,638,403 made for properties transferred to SPMC on March 27, 1986 were bona fide payments by the Department of Supply and Services for rent.

17

DEPARTMENT OF TRADE AND INVESTMENT

THE MARKET DEVELOPMENT FUND

17.00 Financial assistance was provided out of the Market Development Fund in previous years. This assistance is subject to repayment by the recipient under certain conditions. Management did not have procedures in place to check that recipients had complied with conditions of the assistance.

17.01 There was also no procedure to collect the amounts determined to be repayable.

17.02 As a result of these deficiencies in control procedures, it is possible that amounts which should be repaid may not be detected or collected and/or financial assistance may be applied to unauthorized purposes.

18

DEPARTMENT OF URBAN AFFAIRS

18.00 The Provincial Auditor Act requires me to report any reservation in an auditor's report.

18.01 My report on the financial statements for the Northern Revenue Sharing Trust Account for the year ended December 31, 1987 contained a reservation of opinion.

18.02 The report reads as follows:

> *"I have examined the operating fund balance sheet and the capital fund balance sheet of the Northern Revenue Sharing Trust Account as at December 31, 1987 and the statements of operating fund revenue, expenditure and fund balance, capital fund continuity of equity in capital fund assets and capital fund revenue and expenditure for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances, except as explained in the following paragraph.*
>
> *Note 6 to the financial statements states that the financial operations of the operating fund of the hospital in the Northern Settlement of Uranium City are not consolidated with these financial statements since separate financial statements are prepared and reported upon in accordance with the requirements of the Department of Health and of Health and Welfare Canada. In my opinion, the preparation of separate financial statements is not, of itself, an acceptable reason for not including the results of the hospital operations in the financial statements. Legal opinions are inconclusive as to the appropriate treatment to be accorded to the hospital operations and the net working assets of the hospital in these financial statements because of certain questions regarding facts which it appears are not readily ascertainable. Since it was impracticable to achieve a resolution of this matter at the date of finalization of these financial statements, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that the exclusion of the hospital operations and net working assets from these financial statements is appropriate. Accordingly, I am unable to determine whether an adjustment is required to the Operating Fund Balance Sheet and Statement of Revenue, Expenditure and Fund Balance to appropriately account for the hospital operations conducted in the Northern Settlement of Uranium City in these financial statements.*

In my opinion, except for the effect of adjustments, if any, which I may have determined to be necessary had I been able to obtain sufficient information with respect to the matter described in the preceding paragraph, these financial statements present fairly the financial position of the Trust Account as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles disclosed in Note 2 to the financial statements, applied on a basis consistent with that of the previous year.

In my auditor's report dated August 26, 1987 on the December 31, 1986 financial statements of the Northern Revenue Sharing Trust Account, I reported the conflicting legal opinions had left some uncertainty as to whether capital assets having a book value of $7,446,331 should have been reflected as assets of the Trust Account when the status of Uranium City was reverted to a Northern Settlement on October 1, 1984. The Regulations establishing the Uranium City School Division No. 115 provided for the vesting of all assets and liabilities accumulated for the purpose of delivering the educational programs for the former Municipal Corporation of Uranium City and District in the new school division, but did not resolve the legal uncertainties which existed prior to September 24, 1986 (the date of filing of the Regulations). Accordingly, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that the transfer of capital assets to Uranium City School Division No. 115, as reflected in the Statement of Continuity of Equity in Capital Fund Assets of the Trust Account for 1986, properly presented the consequences of these Regulations in the 1986 financial statements of the Trust Account."

MEADOW LAKE SAWMILL LTD.

Table of Contents

	Paragraph
Reservation of opinion	19.01
Management control deficiencies	19.06

19

MEADOW LAKE SAWMILL LTD.

19.00 Meadow Lake Sawmill Ltd. is a company created under The Business Corporations Act. It is a subsidiary of Crown Investments Corporation of Saskatchewan (C.I.C.). Its financial statements are not required to be tabled in the Legislature. The appointed auditor, Peat Marwick, has expressed a reservation of opinion on the financial statements prepared by management.

RESERVATION OF OPINION

19.01 The Provincial Auditor Act requires that all reservations of opinion be included in the Provincial Auditor's annual report. The report is quoted below:

> *"We have examined the consolidated statement of financial position of Meadow Lake Sawmill Ltd. as at December 31, 1987 and the consolidated statements of operations and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.*
>
> *As more fully disclosed in note 4 to the consolidated financial statements, the corporation has recorded interest income from the income debenture to the extent that cash is estimated to be available prior to the earlier of commencement of the commercial operations of the new paper mill now being constructed and December 31, 1989. There is uncertainty as to the timing and amount of interest and principal payments which will ultimately be received on the income debenture. In our opinion, because of the inability of the corporation to determine the timing and amount of such payments, it is not possible to apply the accrual method. Consequently, these financial statements are not prepared in accordance with generally accepted accounting principles which would limit interest recognized to cash received. To December 31, 1987 no cash has been received. At December 31, 1987 interest receivable, retained earnings, debenture interest income and net income were overstated by $63,534,000.*
>
> *In our opinion, except for the effect of inappropriately recognizing interest as described in the preceeding paragraph, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in*

accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We had previously, under date of March 14, 1988, reported on financial statements which have been revised. In such financial statements, interest income was reported as $53,540,000 in 1987 and $9,994,000 in 1986. Our previous report has been withdrawn."

19.02 The appointed auditor is advising the reader that the company's financial statements incorrectly reported $63.5 million as income.

19.03 C.I.C. includes the financial results of Meadow Lake Sawmill Ltd. in its consolidated financial statements. C.I.C. has included this $63.5 million in its 1987 consolidated reported net income.

19.04 C.I.C.'s appointed auditor did not share the view of the Meadow Lake Sawmill Ltd.'s appointed auditor. C.I.C.'s appointed auditor issued his report on the C.I.C. financial statements without reservation.

19.05 This matter is also reported in Chapter 5.

MANAGEMENT CONTROL DEFICIENCIES

19.06 A study and evaluation of the management control systems disclosed the following conditions which resulted in more than a relatively low risk that error or fraud in amounts that would be material may occur and not be detected in a timely period.

19.07 Segregation of duties is inadequate when one person can conceal errors or fraud.

19.08 There was a lack of segregation of duties resulting from the limitations of staff size. There also was not sufficient involvement by management to compensate for this control weakness.

19.09 It was noted the same person is responsible for recording wood receipts, for accepting delivery of wood receipts and for recording contractors' payroll related to wood receipts. Also, these records are not reviewed on a timely basis.

19.10 As a result, the possibility exists that funds may be misappropriated without ready detection. Concealment of a misappropriation is further facilitated because not all of these records are reviewed by a member of management.

19.11 See Appendix II for further information.

20

NORTHERN FOREST OPERATIONS LTD.

20.00 Northern Forest Operations Ltd. is a subsidiary of the Saskatchewan Forest Products Corporation.

20.01 During the audit the following management control deficiencies were noted.

20.02 Essential in an appropriate system of management controls are control procedures which permit management to review, analyze and control the operations of the organization as well as procedures for the Board of Directors (Board) to monitor the performance of the management. Key elements of such a system are budgets and an effective interim financial reporting system so that management and the Board have financial information to assess performance and adjust operations as necessary to meet targets established in the budget.

20.03 During the audit it was noted that there was no documentation of the review of the monthly financial statements sent to the Board.

20.04 It was noted there was inadequate segregation of duties due to limitation of staff size. Management did not exercise sufficient other controls to compensate for this deficiency.

20.05 Segregation of duties is inadequate when one employee can conceal an error or fraud.

20.06 It was noted one employee receives the bank statement from the bank. This employee is also involved with cash receipts and cash disbursements.

20.07 Further, bank statements were not balanced to company records in a timely manner. There was no evidence of review by management that the company records were balanced to the bank statement.

20.08 See Appendix II for further information on this matter.

21

POTASH CORPORATION OF SASKATCHEWAN

21.00 I commented in Chapter 2 that I need to see information first hand.

21.01 For that reason, my officials examined the minutes of the Board of Directors of crown corporations whenever they were available at the office of the corporation's appointed auditor. When they were not, my officials asked the crown corporation to make the minutes available. This is the procedure called the "proper procedure" set out in Chapter 2.

21.02 The appointed auditor did not have the minutes of the Board of Directors of the Potash Corporation of Saskatchewan (P.C.S.) available for my officials.

21.03 On November 4, 1988, my officials asked the corporate counsel for P.C.S. (corporate counsel) if we could examine the minutes of the P.C.S. Board of Directors. Corporate counsel advised my officials that he would get back with an answer.

21.04 On November 14, 1988, corporate counsel told my officials that the Provincial Auditor should ask P.C.S.'s appointed auditor for the minutes.

21.05 My officials then talked to P.C.S.'s appointed auditor. The appointed auditor said he did not have copies of the minutes. However, he said he would ask the corporation for permission to obtain copies for the Provincial Auditor to review.

21.06 In a letter dated November 15, 1988, P.C.S.'s appointed auditor stated he was only permitted to show my officials extracts taken from the minutes.

21.07 On November 17, 1988, P.C.S.'s appointed auditor was asked to confirm P.C.S. had refused the Provincial Auditor access to their minutes. P.C.S.'s appointed auditor confirmed this refusal.

21.08 I attempted to follow a "proper procedure" and did not get the information

21.09 In my opinion, P.C.S. has interfered with me in the discharge of my duties.

21.10 I am unable to rely on the appointed auditor because I did not see the minutes. I also am unable to carry out my duties under The Provincial Auditor Act to conduct additional audit procedures when I am

unable to rely. The additional audit procedures I consider necessary at this time are an examination of the minutes. As previously noted, I have been refused access to these minutes.

22

PRAIRIE MALT LIMITED

22.00 Prairie Malt Limited (Board) is a subsidiary of C.I.C. Industrial Interests Inc. which is a subsidiary of Crown Investments Corporation of Saskatchewan.

22.01 The Board has a policy that required fees to consultants, agents and attorneys in excess of $10,000 annually to be approved by the executive committee of the Board.

22.02 During the audit it was noted a payment of $149,352 U.S. was made which was not properly vouchered as it was made in contravention of the Board's policy.

22.03 A special investigation was conducted by the appointed auditor and revealed there was no loss to the crown.

22.04 See Appendix II for further information on this matter.

PROVINCIAL SECRETARY

Table of Contents

	Paragraph
Members of the Legislative Assembly Superannuation Fund	23.00
Tabling of documents	23.03
Supplementary allowances	23.06
Annuity underwriting	23.13

23

PROVINCIAL SECRETARY

MEMBERS OF THE LEGISLATIVE ASSEMBLY SUPERANNUATION FUND

23.00 The Members of the Legislative Assembly Superannuation Fund (Fund) operates under The Members of the Legislative Assembly Superannuation Act, 1979 (Act).

23.01 The Act requires contributions from members and matching contributions to be paid into the Fund to provide allowances for superannuates.

23.02 The Fund was administered by the officers of the Public Employees Benefits Agency, Department of Finance (PEBA).

Tabling of Documents

23.03 Subsection 42(1) of Act states:

> *"The minister shall, in each fiscal year, in accordance with The Tabling of Documents Act, submit to the Lieutenant Governor in Council an annual report on the administration of this Act....."*

23.04 Subsection 3(2) of The Tabling of Documents Act states:

> *"Where a provision in an Act requires that a document be laid before or submitted to the Legislative Assembly, the document shall be forwarded within ninety days after the end of the period in respect of which the document is prepared, by the proper officers of the department, board, commission or agent of the Government of Saskatchewan in respect of which the document is prepared, to the Lieutenant Governor in Council, the member of the Executive Council or such other person as the Act pursuant to which the document is prepared directs the document to be forwarded for such purpose."*

23.05 Officials have not submitted financial statements for the year ended March 31, 1988 to the Minister in Charge as required by The Tabling of Documents Act.

Supplementary Allowances

23.06 In addition to non-compliance with The Tabling of Documents Act my officials noted the following additional instance of non-compliance with authorities.

23.07 Section 26.1 of the Act states:

"Where a person who was a member and:

a) is entitled to or in receipt of a supplementary monthly allowance pursuant to section 25, 25.1 or 26; or

b) was entitled to a supplementary monthly allowance pursuant to section 25, 25.1 or 26 that has been discontinued under Section 37.1;

dies leaving a spouse, 60% of the supplementary monthly allowances that he was receiving or that he was or would have been entitled to pursuant to sections 25, 25.1 and 26 shall be paid to his spouse for life."

23.08 When a member who has been receiving the annual allowance and the supplementary allowance dies, the pension to a spouse is calculated at the 60% rate of both the annual (section 19) and the supplementary allowance (section 26.1). In each of the years following the death of the member the spouse receives 100% of the new annual supplementary allowances to the spouse.

23.09 It is my view that the 60% rule contained in section 26.1 would apply to the supplementary allowances granted to the deceased member's spouse after the date of death of the member as well as before the member's death. Therefore, the failure to reduce all supplementary allowances to spouses after the date of death to 60% means that all new supplementary allowances granted after the date of death of a member exceed the amounts that would be permitted under the current legislation.

23.10 This matter was reported in my 1985 annual report. The matter was considered by the Standing Committee on Public Accounts on April 24, 1986 and the recommendation of the Committee was delayed pending the receipt of further information and further consideration. The information requested was a comparison of the retiring allowances granted to surviving spouses for all Saskatchewan public sector plans.

23.11 The information comparing retiring allowances for Saskatchewan public sector plans was provided to the Standing Committee on Public Accounts May 1, 1986 as research document #E14/86.

23.12 The Committee has not as yet made a recommendation on this matter.

Annuity Underwriting

23.13 Section 8 of The MLA's Annuity Payment Regulations states:

"A member shall elect to purchase his annuity:

(a) from the Public Employees Benefits Agency; or

(b) through the Public Employees Benefits Agency from a corporation that sells annuities and is licensed under The Saskatchewan Insurance Act."

23.14 PEBA is underwriting annuities for former members and paying the annuities out of the Fund.

23.15 It is possible to incur losses from annuity underwriting operations. However, the existing law does not provide a means for the funding of any possible losses.

23.16 Consideration should be given to having the law changed to include a provision for dealing with profits and losses when they arise.

SASKATCHEWAN CENTRE OF THE ARTS

SEGREGATION OF DUTIES

24.00 During the audit it was noted that there was an inadequate segregation of duties.

24.01 Segregation of duties are inadequate when one employee can conceal an error or fraud.

24.02 During the year one employee was responsible for receiving cash receipts, recording them in the revenue synoptic, preparing deposit slips and updating the accounts receivable subledger and general ledger. There also was no independent check to ensure all cash receipts were recorded and deposited on a timely basis. This weakness continued to March 31, 1988 even though a change in personnel and a transfer of duties was made as a result of the circumstances described below.

24.03 An investigation by the Board revealed $11,170 appeared to have been misappropriated as a result of inadequate segregation of duties. The money was subsequently recovered.

NON-COMPLIANCE WITH AUTHORITY

24.04 Section 41 of The Department of Finance Act, 1983 states:

> *"Notwithstanding the provisions of any other Act, no department, board, commission or agent of the Government of Saskatchewan and no Crown corporation shall borrow any moneys without the approval of the minister."*

During the year, the Board exceeded the overdraft limit set by the Minister of Finance on numerous occasions and, accordingly, did not comply with Section 41 of The Department of Finance Act, 1983.

25

SASKATCHEWAN FOREST PRODUCTS CORPORATION

25.00 The incorporating Order-in-Council 1899/49 requires the Board of Directors (Board) to meet at least once every three months.

25.01 The Board held only two formal meetings during the year.

25.02 During the audit it was noted that management did not appropriately review accounts payable accruals. Management also did not prepare consolidated financial information monthly or quarterly.

25.03 The lack of a regular review of operations by management and the Board increases the risk that errors or fraud may occur and not be detected on a timely basis.

25.04 See Appendix II for further information on this matter.

26

SASKATCHEWAN LEGAL AID COMMISSION

26.00 There is an agreement with the Federal Government to share the cost of legal aid for criminal cases. The agreement requires that an annual claim be submitted to the Federal Government. The agreement also requires an audit of the claim.

26.01 In my 1986 annual report I reported that with computerized accounting systems it is important that there are proper development procedures for new systems or system changes. These development procedures should ensure that new systems will provide the information necessary to meet the needs of users.

26.02 In 1986, the Commission developed a computerized information system known as the Legal Aid Management Information System (LAMIS). The system requires each lawyer/paralegal to complete and forward to the Commission a dossier form (time report) for each legal case completed. These time reports serve as a source of data entry for the LAMIS system. LAMIS summarizes these time reports and provides a year to date report (Report) indicating the percentage of time spent on criminal (shareable) or civil (non-shareable) legal cases. This Report is used by the Commission in the preparation of the annual Federal Cost Sharing Claim.

26.03 The audit revealed that the system was designed in a way that makes it impossible to check the accuracy of the Report and, therefore, the claim.

26.04 This problem continued for 1988. It allows the possibility of a delay and/or impairment in the collection of monies otherwise due.

26.05 Management has informed me that a study has been done to correct this problem. However, due to financial constraints corrective action has been delayed.

27

SASKATCHEWAN LIQUOR BOARD

27.00 As part of the audit of the Board my officials examined the rules and procedures to determine whether:

- the security systems were adequate to prevent and detect unauthorized access to information or unauthorized manipulation of data maintained on computer files,

- back-up files and programs, alternate processing facilities and documented contingency plans were available to ensure that computer processing capability can continue in the event of an equipment failure.

27.01 It was noted that although there is a regular procedure for back-up of data with offsite storage, there was not a documented and tested contingency plan in place to recover or reconstruct critical computerized records in the event of a major loss or destruction.

27.02 An organization must have the ability to maintain continuous operations during abnormal circumstances. One aspect of this is the ability to recover or reconstruct critical records which are lost or destroyed, whether they be manual or computerized records. In contingency planning, both the computerized applications (often termed disaster recovery) and the manual procedures are documented. Included in the recovery plan would be:

i) detailed steps to be carried out in reconstructing files
ii) priority list of applications
iii) individuals responsible for carrying out specific recovery steps

27.03 To ensure success, this contingency plan must be tested on a periodic basis.

27.04 The weakness observed allows the possibility that, if damage or destruction occurs to critical computerized records, it could be difficult for the Board to recover in a timely and efficient manner.

27.05 I have been advised by management that a documented contingency plan is now being developed.

27.06 It was also noted that the computer equipment used by the Liquor Board provides the capability within the operating system to restrict access by defined users to predetermined computer data or programs. It was noted that these access restrictions were compromised due to:

1) systems passwords were not changed on a frequent basis
2) former employees were on the system
3) inactive users were defined to the system
4) a terminated software agency was still defined to the system
5) users were not restricted to specific time and day restrictions

27.07 With computerized systems, physical segregation of duties is often lost. Instead, this segregation of functions is often achieved through restricting access to data or programs residing on the computer. Therefore, controls over computer access are significant.

27.08 The weakness noted allows the possibility of unauthorized changes to program and data files which may not be detected by other controls in place.

27.09 I have been advised by management that compromises in access restrictions have been corrected.

28

SASKATCHEWAN POWER CORPORATION

28.00 Saskatchewan Power Corporation (S.P.C.) recently sold oil and gas properties to SaskOil.

28.01 I understood that in exchange for the properties S.P.C. received voting shares of SaskOil.

28.02 A company can become a crown controlled corporation within the meaning of The Provincial Auditor Act when 50% to 90% of its voting shares are owned by the crown.

28.03 When a company becomes a crown controlled corporation it is subject to an audit under The Provincial Auditor Act.

28.04 To find out if this sale of properties resulted in SaskOil becoming subject to an audit under The Provincial Auditor Act, I needed to examine the agreement between S.P.C. and SaskOil.

28.05 I was aware that S.P.C.'s appointed auditor had a copy of the agreement between S.P.C. and SaskOil.

28.06 To follow the "proper procedure" as set out in Chapter 2, S.P.C.'s appointed auditor was asked to let my officials examine the agreement.

28.07 S.P.C.'s appointed auditor has advised that officials of S.P.C. have refused to allow him to comply with my request.

28.08 In my opinion, S.P.C. interfered with me in the discharge of my duties.

28.09 Later I became aware that a copy of the agreement was filed with the Office of the Executive Council.

28.10 My officials were able to examine the agreement at the Office of the Executive Council. Upon examining the agreement, I found SaskOil is not subject to an audit under The Provincial Auditor Act.

SASKATCHEWAN PROPERTY MANAGEMENT CORPORATION

Table of Contents

	Paragraph
1987	29.00
1988	29.10
Difference of opinion	29.14
Compliance with authorities	29.22
Ministerial travel	29.34
Rental contracts with public agencies	29.38

29

SASKATCHEWAN PROPERTY MANAGEMENT CORPORATION

1987

29.00 In my 1987 annual report I reported the Legislative Assembly's audit requirements were not discharged at April 30, 1988.

29.01 I advised that the appointed auditor for Saskatchewan Property Management Corporation (SPMC) was of the opinion they may be unable to report on the adequacy of the control systems in place for the year ended March 31, 1987 as they had not been appointed auditor until after that date.

29.02 I have now received the formal reports from the appointed auditor.

29.03 The appointed auditor was not able to express an opinion on the adequacy of SPMC's control systems to safeguard and control public money because he had not been appointed until after the year end.

29.04 I, therefore, am unable to rely on the appointed auditor for the purpose of discharging my responsibility to the Legislative Assembly.

29.05 The spirit of the law requires me to rely on the work of the appointed auditor unless I am not satisfied with the work and report. If I am not satisfied, I must audit and report.

29.06 In this case it is not possible to conduct my own audit procedures for the same reason the appointed auditor was unable to conduct their audit procedures. That is, it is not possible to study and evaluate the control systems in effect at March 31, 1987 if considerable time has elapsed after the year end.

29.07 There is a basic conflict between what the law requires and what can be done. The appointed auditor did not issue his report on the 1987 year until sometime after the year end. If the work and report is not adequate, it is not possible for me to conduct all the necessary audit procedures.

29.08 When this situation arises, the Members of the Legislative Assembly are not served and accountability suffers.

29.09 In Chapter 2, I recommended the process be changed so the appointed auditor and the Provincial Auditor work together on crown corporation audits as joint auditors or with some similar arrangement.

1988

29.10 I am unable to rely on the work of the appointed auditor for the following reasons:

- the appointed auditor has, in my opinion, issued an inappropriate opinion on SPMC's 1988 financial statements.
- the documentation in the working paper files of the appointed auditor was not sufficient to permit me to form an opinion on the adequacy of SPMC's control systems to safeguard and control public property.
- the documentation in the working paper files was not sufficient to permit me to form an opinion on SPMC's compliance with authorities.

29.11 Further discussion on each of these matters follows.

29.12 I will be conducting those audit procedures that can be done for 1987 and 1988. In this regard see paragraphs 29.06 and 29.07.

29.13 When my audit procedures are completed, I will report the results in my next annual report.

Difference of Opinion

29.14 In my opinion, SPMC's financial statements contain significant departures from generally accepted accounting principles (G.A.A.P.) which I describe later.

29.15 The appointed auditor has issued an audit opinion without reservation on these financial statements. Therefore, in my opinion, the appointed auditor has issued an inappropriate report.

29.16 Accordingly, I have reported this matter to the Institute of Chartered Accountants of Saskatchewan. I will report its ruling when I receive it.

29.17 The primary purpose of preparing financial statements for SPMC is to enable the Legislative Assembly to hold the Executive government accountable for the public money it administers through SPMC.

29.18 Concept Statement #1 of The Governmental Standards Accounting Board states:

> *"Accountability requires governments to answer to the citizenry - to justify the raising of public resources and the purposes for which they are used. Governmental accountability is based on the belief that the citizenry has a "right to know", a right to receive openly declared facts*

that may lead to public debate by the citizens and their elected representatives. Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society."

29.19 The financial statements do not disclose the nature and significance of the Participation Credit of $42.7 million in the Statement of Income and Retained Earnings. In my opinion, this is essential information which is required to be disclosed by G.A.A.P.

29.20 SPMC manages the furniture, fittings and equipment previously managed by the Department of Supply and Services. SPMC is charging rent to government agencies for these assets.

29.21 Furniture, fittings and certain equipment are not recorded in the financial statements. In my opinion, G.A.A.P. requires these assets be recorded in the financial statements.

Compliance With Authorities

29.22 Section 25 of The Department of Finance Act, 1983 reads:

"All public money, other than:....

(b) money otherwise specially disposed of by the Legislature; is to form one consolidated fund to be appropriated for the public services of Saskatchewan."

29.23 SPMC manages the sale of assets it owns plus assets transferred to it from other government agencies.

29.24 The Department of Health sent dental equipment costing $2.2 million to SPMC to sell.

29.25 When the dental equipment is sold the revenue should be paid into the consolidated fund as these assets are not owned by SPMC.

29.26 I am unable to determine from the files of the appointed auditor the amount of dental equipment sold and whether the funds were sent to the consolidated fund.

29.27 There also does not appear to be any revenue recorded in the consolidated fund for the sale of dental equipment.

29.28 I am required by law to report *"any public money was not duly accounted for and paid into the appropriate fund".*

29.29 The appointed auditor's working papers do not consider this matter.

29.30 SPMC's financial statements were not tabled in accordance with The Tabling of Documents Act.

29.31 SPMC has charged the Department of Parks and Renewable Resources $1.4 million for the use of four Canadair CL 215 aircraft.

29.32 When the assets managed by the Department of Supply and Services were transferred to SPMC, these four aircraft were specifically excluded from the transfer. Therefore, SPMC does not own these airplanes (see also Chapter 16 about similar matters concerning the ownership of assets).

29.33 There is insufficient information in the appointed auditor's files to determine the reason for the $1.4 million charge.

MINISTERIAL TRAVEL

29.34 The Financial Administration Manual states that flights on the Executive aircraft are to be billed to the Minister's department as a normal travel expense.

29.35 SPMC is not following this directive. It is not billing government departments for a Minister's use of Executive aircraft.

29.36 As a result the information on travel expenses contained in the Public Accounts does not include these charges.

29.37 Previously Minister's travel on the Executive aircraft was paid from a Department of Supply and Services appropriation.

RENTAL CONTRACTS WITH PUBLIC AGENCIES

29.38 The Saskatchewan Property Management Corporation Act gives every public agency the authority to enter into contracts with SPMC. Section 22 states:

> *"Notwithstanding any other Act or law, a public agency has the capacity and authority:*
>
> *(a) to enter into arrangements or agreements with the corporation for the acquisition of services or for the acquisition, maintenance and operation of any property, accommodation or facilities relating to the carrying out of the functions and purposes of the agency; and*
>
> *(b) to make any payments required by the arrangement or agreement."*

29.39 The Legislative Assembly (Assembly) has included a restrictive clause in the Acts which governs the operations of public agencies. This

clause requires a public agency to get the approval of the Lieutenant Government in Council for contracts in excess of $10,000 in any fiscal year.

29.40 Public agencies are making payments to SPMC for space rental without written agreements being in place. Payments are often in excess of the $10,000 limit. The public agencies have not obtained an Order-in-Council to authorize these rental payments.

29.41 There is a difference of opinion between government officials and my office as to whether the law requires public agencies to get an Order-in-Council. I have sought legal advice. My lawyer has advised me that the restrictive clause contained in the laws governing a public agency continue to apply notwithstanding the SPMC Act. As a result, public agencies must obtain an Order-in-Council for the rent payments.

29.42 I have not reported each public agency for failure to obtain written agreements or to get an Order-in-Council for rent payments as the problem is government wide. I recommend that the law should be followed or alternatively changed to make it clear that an Order-in-Council is not required for rental payments to SPMC. I am informed that amendments to Treasury Board directives are currently under consideration to resolve the matter of written agreements.

SASKATCHEWAN TELECOMMUNICATIONS

Table of Contents

	Paragraph
Report of the appointed auditor	30.00
Non-reliance	30.05
Interference	30.13

30

SASKATCHEWAN TELECOMMUNICATIONS

REPORT OF THE APPOINTED AUDITOR

30.00 Appendix II contains the report of the appointed auditor.

30.01 This report reads in part as follows:

> *"We have examined the accompanying report entitled "Management Report on Internal Control at Saskatchewan Telecommunications" dated June 29, 1988. Our examination was made in accordance with generally accepted auditing standards; it included discussion, enquiry and analysis of senior management's control systems in the major operating areas of the corporation, discussion and enquiry concerning the application of the criteria of internal control (referred to in the attached report) in the major operating areas of the corporation, evaluation and tests of internal control procedures performed as part of our audit of the financial statements for the period ended December 31, 1987, and such other procedures as we considered necessary in the circumstances.*
>
> *In our opinion, based on the performance of the above procedures, nothing has come to our attention that would cause us to believe that management's conclusion on the corporation's systems of internal control for the year ended December 31, 1987, as described in the attached report, is not fairly presented in accordance with the criteria presented therein."*

30.02 Members of the Legislative Assembly should be aware the appointed auditor is not providing audit level assurance. That is, the appointed auditor has not formed a positive opinion on the adequacy of SaskTel's systems to safeguard and control public money. The appointed auditor has also not formed a positive opinion on SaskTel's compliance with authorities.

30.03 All other appointed auditors have provided audit level assurance in their reports to the Legislative Assembly.

30.04 The appointed auditor's report provides negative assurance. That is, the level of assurance provided is lower than that level of assurance provided by an audit. As the Canadian Institute of Chartered Accountants stated in the research study "Limited Audit Engagements and the Expression of Negative Assurance":

> *"Expressions of negative assurance have been used in a wide variety of situations to try to convey some lessor degree of confidence than an audit opinion. Communications containing this form of assurance have*

been criticized, in part because the wording has no precise meaning. Negative assurance could be used to describe the result of a reasonably thorough examination. On the other hand, the expression could be literally true if next to nothing had been done....."

NON-RELIANCE

30.05 There was not sufficient evidence in the appointed auditor's files for me to form an audit opinion on the adequacy of SaskTel's systems to safeguard and control public money.

30.06 In my opinion, I am not able to rely on the appointed auditor for the purpose of discharging my responsibility to the Legislative Assembly.

30.07 I have not conducted additional audit procedures at SaskTel to document, evaluate and test SaskTel's control systems to safeguard and control public property for the following reason.

30.08 By the time it was determined that I could not rely on the work and report of the appointed auditor it was no longer possible to carry out the necessary audit procedures.

30.09 The spirit of the law requires me to rely on the work of the appointed auditor unless I am not satisfied with the work and report. If I am not satisfied, I am required to audit and report.

30.10 There is a basic conflict between what the law requires and what can be done. The appointed auditor did not issue his report on the 1987 year until sometime after the year end. If the work and report is not adequate, it is not possible to conduct all the necessary audit procedures.

30.11 When this situation arises, the Members of the Legislative Assembly are not served and accountability suffers.

30.12 In Chapter 2, I recommended the process be changed so the appointed auditor and the Provincial Auditor work together on crown corporation audits as joint auditors or with some similar arrangement.

INTERFERENCE

30.13 In addition to the foregoing, I have not been provided with all of the information that I require to perform my duties under The Provincial Auditor Act.

30.14 SaskTel has not given me access to the minutes of the Board of Directors even though I have followed the "proper procedure" described in Chapter 2.

30.15 SaskTel's appointed auditor has refused to give me a copy of a letter written to management about the results of the audit. He advised that the letter was a confidential communication to management of ideas and constructive suggestions.

30.16 In my opinion, these actions represent an interference with an Officer of the Legislative Assembly in the discharge of his duties.

SASKATCHEWAN TELECOMMUNICATIONS SUPERANNUATION BOARD

Table of Contents

	Paragraph
Report of the appointed auditor	31.02
Non-reliance	31.07
Early Retirement Program	31.15
Other	31.21

31

SASKATCHEWAN TELECOMMUNICATIONS SUPERANNUATION BOARD

31.00 The Saskatchewan Telecommunications Superannuation Board (Board) administers The Saskatchewan Telecommunications Superannuation Act (Act).

31.01 The Act established the Saskatchewan Telecommunications Superannuation Fund (Fund) and sets out criteria for the receipt and disbursement of money.

REPORT OF THE APPOINTED AUDITOR

31.02 Appendix II contains the report of the appointed auditor.

31.03 This report reads in part as follows:

> *"We have examined the accompanying report entitled "Management Report on Internal Control at Saskatchewan Telecommunications Superannuation Fund" dated February 15, 1989. Our examination was made in accordance with generally accepted auditing standards; it included discussion, enquiry and analysis of senior management's control systems in the major operating areas of the Fund, discussion and enquiry concerning the application of the criteria of internal control (referred to in the attached report) in the major operating areas of the Fund, evaluation and tests of internal control procedures performed as part of our audit of the financial statements for the year ended December 31, 1987, and such other procedures as we considered necessary in the circumstances.*
>
> *In our opinion, based on the performance of the above procedures, nothing has come to our attention that would cause us to believe that management's conclusion on the system of internal control at Saskatchewan Telecommunications Superannuation Fund for the year ended December 31, 1987, as described in the attached report, is not fairly presented in accordance with the criteria presented therein."*

31.04 Members of the Legislative Assembly should be aware the appointed auditor is not providing audit level assurance. That is, the appointed auditor has not formed a positive opinion on the adequacy of the Board's systems to safeguard and control public money. The appointed auditor has also not formed a positive opinion on the Board's compliance with authorities.

31.05 All other appointed auditors have provided audit level assurance in their reports to the Legislative Assembly.

31.06 The appointed auditor's report provides negative assurance. That is, the level of assurance provided is lower than that level of assurance provided by an audit. As the Canadian Institute of Chartered Accountants stated in the research study "Limited Audit Engagements and the Expression of Negative Assurance":

> *"Expressions of negative assurance have been used in a wide variety of situations to try to convey some lessor degree of confidence than an audit opinion. Communications containing this form of assurance have been criticized, in part because the wording has no precise meaning. Negative assurance could be used to describe the result of a reasonably thorough examination. On the other hand, the expression could be literally true if next to nothing had been done....."*

NON-RELIANCE

31.07 There was not sufficient evidence in the appointed auditor's files to form an audit opinion on the adequacy of the Board's systems to safeguard and control public money or to form an opinion on the Board's compliance with authority.

31.08 Therefore, I am not able to rely on the appointed auditor for the purpose of discharging my responsibility to the Legislative Assembly.

31.09 I have not conducted additional audit procedures at the Board to document, evaluate and test the Board's control system to safeguard and control public property for the following reason.

31.10 By the time it was determined that I could not rely on the work and report of the appointed auditor it was no longer possible to carry out the necessary audit procedures.

31.11 The spirit of the law requires me to rely on the work of the appointed auditor unless I am not satisfied with the work and report. If I am not satisfied, I am required to audit and report.

31.12 There is a basic conflict between what the law requires and what can be done. The appointed auditor did not issue his report on the 1987 year until sometime after the year end. If the work and report is not adequate, it is not possible to conduct all the necessary audit procedures.

31.13 When this situation arises, the Members of the Legislative Assembly are not served and accountability suffers.

31.14 In Chapter 2, I recommended the process be changed so the appointed auditor and the Provincial Auditor work together on crown corporation audits as joint auditors or with some similar arrangement.

EARLY RETIREMENT PROGRAM

31.15 In Chapter 38 of my 1987 annual report I reported that the payments being made out of the Fund under a SaskTel 1986 early retirement package did not have adequate authority.

31.16 The Board is paying the pension benefits set out in the Act plus the additional benefits contained in SaskTel's early retirement package.

31.17 It is my opinion and that of my legal counsel that the Board does not have authority to pay the additional benefits out of the Fund.

31.18 There has been no change to the legislation that would provide the Board with the necessary authority to make these payments.

31.19 The Board's appointed auditor was of the opinion the payments had adequate authority and, therefore, did not include any reference to this matter in his report to the Members of the Legislative Assembly.

31.20 The Board's appointed auditor advised me that he relied on advice obtained from SaskTel's Corporate Counsel at a SaskTel Board meeting. SaskTel's Corporate Counsel was of the opinion that the Board had authority to make the payments.

OTHER

31.21 In addition to the foregoing, I have not been provided with all of the information I required to discharge my duties under The Provincial Auditor Act.

31.22 The Board's appointed auditor has refused to give me a copy of a letter written to management about the results of the audit. He advised the letter was a confidential communication to management of ideas and constructive suggestions.

32

SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL, INC.

32.00 In my annual report for the period April 1, 1986 to March 31, 1987, I reported a number of deficiencies in the control systems used by management to safeguard and control this public money.

32.01 The Minister in charge of this company was questioned by the Standing Committee on Crown Corporations about this matter (see page 173 and 174 of the Committee verbatim).

32.02 The questions and answers went as follows:

"A member:	*Do I understand you to say that Touche Ross made the same observation.*
Minister in charge:	*Yes.*
A member:	*Essentially the same. And have they presented a report to you of a similar nature....*
Minister in charge:	*--'87 we corrected.*
A member:	*Okay. But Touche Ross wasn't involved until....Well this observation would have been made by the auditor about up to December 31, 1986. Touche Ross observed the same thing in '87.*
Minister in charge:	*'87 and then we've moved to correct it in 1987."*

32.03 It appears the Minister has informed the Committee that Touche Ross has reported to him that the same deficiencies existed in 1987 that I reported to the Legislative Assembly for 1986.

32.04 This information is inconsistent with the report Touche Ross and management of Saskatchewan Telecommunications International Inc. made to the Legislative Assembly in 1987. Their reports appear at Appendix II and indicate controls were adequate during the period January 1, 1987 to December 31, 1987. Touche Ross was not engaged to audit Saskatchewan Telecommunications International Inc. until November, 1987. Therefore, they could not have reported on this matter or changed the system until after that date.

32.05 In addition, the report made by Touche Ross provides the Legislative Assembly with less than audit assurance. See paragraphs 30.02 to 30.04 for further discussion on this matter.

OTHER

32.06 In addition to the foregoing, I have not been provided with all of the information I required to discharge my duties under The Provincial Auditor Act.

32.07 The Board's appointed auditor has refused to give me a copy of a letter written to management about the results of the audit. He advised the letter was a confidential communication to management of ideas and constructive suggestions.

33

SASKATCHEWAN TRANSPORTATION COMPANY

33.00 During the audit it was noted that the Company had borrowed money beyond its authority.

33.01 The Company's borrowing limit according to Order-in-Council 450/86 was $8.8 million. During the year the Company exceeded the borrowing limit by $4.364 million. At the year end the Company's outstanding borrowing was $12.089 million.

33.02 See Appendix II for further information on this matter.

34

WESTBRIDGE COMPUTER CORPORATION

34.00 Westbridge Computer Corporation (Westbridge) is a crown controlled corporation within the meaning of The Provincial Auditor Act. That is it has 50 - 90% of its voting shares owned by the crown.

34.01 The changes to The Provincial Auditor Act in 1987 resulted in crown controlled corporations being subject to an audit under The Provincial Auditor Act.

34.02 The audit of public funds is different than an audit under a business corporations act.

34.03 The Legislative Assembly's audit requirements for public funds were set out in 1965. These requirements remain the same.

34.04 A complete audit of public funds by the Provincial Auditor has always consisted of three parts:

- an audit to form an opinion on the control systems used by management to safeguard and control public funds,
- an audit to form an opinion that a crown agency has complied with the law regarding its spending, revenue raising, borrowing and lending activities,
- an audit to form an opinion on the financial statements of a crown agency.

34.05 An audit under a business corporations act consists of only one part, that is an audit to form an opinion on financial statements.

34.06 Where there are appointed auditors, I must be sure they have carried out a complete audit of public funds. To do so, I carry out a number of procedures. One of these procedures is to ask the appointed auditors to give me standard professional opinions. These opinions are part of the process to determine if the appointed auditor has carried out a complete audit.

34.07 I wrote to the appointed auditor of Westbridge and asked him to give me these standard opinions.

34.08 The appointed auditor wrote to me and said he was unable to provide me with the opinions I needed. He said he could not provide the

reports because the Government of Saskatchewan (Executive) had a different opinion about the Provincial Auditor's responsibilities as applied to Westbridge.

34.09 Because the appointed auditor had not conducted a complete audit of public funds, I wrote to the President of Westbridge advising that my officials would conduct an audit.

34.10 On December 22, 1988, one of my officials talked to the Chief Financial Officer of Westbridge. He informed my official that Westbridge management believes, supported by a legal opinion, that Westbridge is not subject to an audit under The Provincial Auditor Act. He also advised that my officials would not be permitted to audit the accounts of Westbridge.

34.11 My lawyer is of the opinion that crown controlled corporations are subject to an audit under The Provincial Auditor Act.

34.12 In my opinion, Westbridge has interfered with me in the discharge of my duties.

34.13 Also, in my opinion, the Executive is not accountable to the Legislative Assembly for the administration of this public money if a complete audit is not conducted and if financial information is not given to the Assembly.

35

WESTERN DEVELOPMENT MUSEUM

35.00 During the audit my officials noted the following deficiencies in the rules and procedures to safeguard and control public property.

35.01 There is not a current detailed fixed asset record. There also is no periodic physical count of fixed assets.

35.02 In order to safeguard and control public property it is necessary to have a record of the assets for which the Museum is responsible. It is also necessary from time to time to physically count the assets and compare the count with the records.

35.03 In my opinion, the rules and procedures applied were not sufficient to safeguard and control fixed assets.

35.04 My officials were informed that a current fixed asset record is being prepared.

35.05 In addition my officials noted there was no check on sequential numbers recorded on cash register tape readings sent to the Administration Services Branch of the Museum.

35.06 Admission fees and cafe sales are made through a cash register and a tape with a sequential number is produced. However, officials did not account for the sequential numbers on the tapes.

35.07 Therefore, in my opinion, the rules and procedures applied were not sufficient to secure an effective check on the collection of money.

36

WORKERS' COMPENSATION BOARD (SASKATCHEWAN)

36.00 The Workers' Compensation Act, 1979 permits the Workers' Compensation Board (Board) to pay for the cost of administration of an industrial safety program.

36.01 The Department of Labour Act sets out the rules for making this payment. One of the rules is that the Board must obtain an Order-in-Council as authority to make the payment.

36.02 The Board paid $2,355,731 for the 1987 cost of administration of the industrial safety program without an Order-in-Council.

36.03 Subsequently the Board obtained an Order-in-Council retroactively approving this payment.

36.04 This matter was also reported in my 1987 and 1986 annual reports under the Department of Labour.

APPENDIX I

An Act respecting the Provincial Auditor and the Auditing of Certain Accounts

SHORT TITLE AND INTERPRETATION

1 This Act may be cited as The Provincial Auditor Act.

2 In this Act:

(a) "acting provincial auditor" means the acting provincial auditor appointed pursuant to section 5;

(a.1) "appointed auditor" means an auditor appointed pursuant to an Act or other authority by the Lieutenant Governor in Council or another body to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money;

(b) "audit" means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;

(c) "Crown" means Her Majesty the Queen in right of Saskatchewan;

(d) "Crown agency" means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:

(i) are appointed by an Act or by the Lieutenant Governor in Council; or

(ii) are, in the discharge of their duties, public officers or servants of the Crown;

and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

(e) "Crown-controlled corporation" means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

(f) "fiscal year" means the period commencing on April 1 in one year and ending on March 31 in the next year;

(g) "provincial auditor" means the Provincial Auditor for Saskatchewan appointed pursuant to section 3;

(h) "public money" means all revenues and public moneys from whatever source arising, whether the revenues and moneys:

(i) belong to the Government of Saskatchewan; or

(ii) are collected or held by officers of the departments of the Government of Saskatchewan or Crown agencies for, on account of or in trust for the Government of Canada or the government of any other province or for any other party or person;

and includes public property;

(i) "public property" means property held or administered by the Crown.

APPOINTMENT AND OFFICE

3(1) After consultation with the Chairman of the Standing Committee of the Legislative Assembly on Public Accounts, the Lieutenant Governor in Council shall appoint a person as the Provincial Auditor for Saskatchewan.

(2) The provincial auditor is an officer of the Legislative Assembly and holds office during good behaviour.

(3) Repealed.

(4) The provincial auditor may resign his office at any time by forwarding a written notice addressed to:

(a) the Speaker; or

(b) where there is no Speaker or the Speaker is absent from Saskatchewan, the President of the Executive Council.

(5) The Lieutenant Governor in Council may suspend or remove the provincial auditor from office only for cause and on the address of the Legislative Assembly.

4(1) Subject to subsection (2), the provincial auditor is to be paid a salary equal to the average salary of all the deputy ministers and acting deputy ministers of the Government of Saskatchewan calculated as at April 1 in each year.

(2) Where, as a result of a calculation made pursuant to subsection (1), the provincial auditor's salary would be less than his previous salary, he is to be paid not less than his previous salary.

(3) The provincial auditor is entitled to receive any privileges of office and economic adjustments that are provided to deputy ministers.

(4) The provincial auditor's salary is a charge on the consolidated fund.

5.(1) The provincial auditor may appoint an employee of his office as acting provincial auditor.

(2) Where the position of provincial auditor is vacant and there is no acting provincial auditor, the Lieutenant Governor in Council may appoint a person as acting provincial auditor who is to hold office until an acting provincial auditor is appointed pursuant to subsection (1).

(3) Where the position of provincial auditor is vacant or the provincial auditor is absent or unable to perform his duties due to illness or other disability, the acting provincial auditor has all the powers and shall exercise all the duties of the provincial auditor.

6 No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan.

7 For the purposes of exercising any of the powers or carrying out any of the duties imposed upon him by this Act, the provincial auditor may engage the services of or retain any technical, professional or other advisors, specialists or consultants that he considers necessary.

8(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the office of the provincial auditor are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The disability income plan, the public employees dental plan and the group insurance plan applicable to the public servants of Saskatchewan and any plan introduced to replace or substitute for those plans apply or continue to apply, as the case may be, to the provincial auditor and the employees of the office of the provincial auditor.

(4) The Public Service Superannuation Act and The Superannuation (Supplementary Provisions) Act apply to the provincial auditor and the permanent and full-time employees of the office of the provincial auditor, and all credits in any superannuation plan or fund established pursuant to those Acts for the provincial auditor and the employees of the office of the provincial auditor and accumulated under those Acts, prior to the coming into force of this section, are preserved and continued in accordance with those Acts.

(5) The provincial auditor shall administer, manage and control the office of the provincial auditor and the general business of the office and shall oversee and direct the staff of the office.

9 The provincial auditor shall require every person employed in his office who is to examine the accounts of a department of the Government of

Saskatchewan, Crown agency or Crown-controlled corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation.

10 The provincial auditor may delegate to any member of his office the authority to exercise any power or to perform any duty conferred on him pursuant to this Act, other than the duty to make his annual report or a special report to the Legislative Assembly.

DUTIES AND POWERS

11(1) The provincial auditor is the auditor of the accounts of the Government of Saskatchewan and shall examine all accounts related to public money and any accounts not related to public money that he is required by an Act to examine, and shall determine whether, in his opinion:

(a) the accounts have been faithfully and properly kept;

(b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

(c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d).

(3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.

11.1(1) In the fulfillment of his responsibilities as the auditor of the accounts of the Government of Saskatchewan, the provincial auditor may rely on the report of the appointed auditor of a Crown agency or Crown-controlled corporation if he is satisfied that the appointed auditor has carried out his responsibilities pursuant to section 11 with respect to that Crown agency or Crown-controlled corporation.

(2) Where the provincial auditor determines pursuant to subsection (1) that he is unable to rely on the report of the appointed auditor with respect to a Crown agency or Crown-controlled corporation, the provincial auditor shall

conduct additional audit work with respect to the accounts of that Crown agency or Crown-controlled corporation.

(3) Where the provincial auditor has performed additional audit work on the accounts of a Crown agency or Crown-controlled corporation pursuant to subsection (2), he shall report in his annual report pursuant to this section:

(a) the reason that he was unable to rely on the report of the appointed auditor of the Crown agency or Crown-controlled corporation;

(b) the nature of the additional audit work he conducted; and

(c) the results of the additional audit work.

12(1) At the end of each fiscal year, the provincial auditor and every appointed auditor shall prepare a report on the results of all examinations that they have conducted of departments of the Government of Saskatchewan, Crown agencies and Crown-controlled corporations during that year giving details of any reservation of opinion made in an audit report, and shall identify any instances they consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly, including any cases in which they observe:

(a) any officer or employee of a department of the Government of Saskatchewan or Crown agency has wilfully or negligently omitted to collect or receive any public money belonging to the Crown;

(b) any public money was not duly accounted for and paid into the appropriate fund;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was made for which there was no authority or which was not properly vouchered or certified;

(e) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person;

(f) a special warrant authorized the payment of public money; or

(g) essential records were not maintained or the rules and procedures applied were not sufficient:

(i) to safeguard and control public money;

(ii) to effectively check the assessment, collection and proper allocation of public money; or

(iii) to ensure that expenditures were made only as authorized.

(1.1) On completion of any examination of the accounts of a Crown agency or Crown-controlled corporation, an appointed auditor shall submit to the provincial auditor the report prepared pursuant to subsection (1) with respect to that Crown agency or Crown-controlled corporation.

(1.2) At the end of each fiscal year, the provincial auditor shall compile the reports submitted to him by appointed auditors pursuant to subsection (1.1) and shall submit them together with his report prepared pursuant to this section in the form of an annual report to the Legislative Assembly.

(2) In the annual return made pursuant to subsection (1), the provincial auditor may:

(a) report on the work of his office and on whether, in carrying on the work of his office, he received all the information, reports and explanations he required from departments of the Government of Saskatchewan, Crown agencies or Crown-controlled corporations or their auditors; and

(b) comment on the financial statements of any department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation of which he is the auditor.

(3) Notwithstanding subsection (1), neither the provincial auditor nor any appointed auditor is required to report to the Legislative Assembly on any matter that he considers immaterial or insignificant.

13 The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent.

14 Notwithstanding The Tabling of Documents Act:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, his annual report prepared pursuant to section 12 and any special report that is prepared by him pursuant to section 13; and

(b) the Speaker shall, as soon as practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

15(1) The provincial auditor or the appointed auditor, as the case may be, shall express an opinion, in accordance with the outcome of his examinations, on the financial statements of:

(a) any funds that he is required to audit pursuant to subsection 11(1);

(b) Crown agencies;

(c) Crown-controlled corporations; and

(d) accounts not related to public money that are, by an Act, required to be examined by him.

(2) Notwithstanding any other provision of this Act, the provincial auditor is not required to audit or report on the financial statements of a Crown agency or Crown-controlled corporation for which there is an appointed auditor.

16(1) Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding The Tabling of Documents Act:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and

(b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

(4) Where:

(a) the Lieutenant Governor in Council:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor may perform the special assignment.

(5) The provincial auditor shall submit, as soon as is practicable, a special report prepared pursuant to subsection (4) to the Lieutenant Governor in Council.

17 Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be, shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance.

18 The provincial auditor shall:

(a) cause to be examined debentures and other securities of the Government of Saskatchewan that have been redeemed;

(b) assure himself that the securities described in clause (a) have been properly cancelled; and

(c) at any time and to any extent that the Minister of Finance may require, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities.

19 On the request of the Standing Committee of the Legislative Assembly on Public Accounts, the provincial auditor and any member of his office shall attend meetings of that committee to assist that committee:

(a) in planning the agenda for its review of the public accounts, the annual report of the provincial auditor, a special report prepared pursuant to section 13 or a report prepared pursuant to subsection 16(1) on the request of the committee; and

(b) during its review of the items described in clause (a).

AUDIT COMMITTEE

20(1) An audit committee, composed of not more than five persons appointed by the Lieutenant Governor in Council, is established.

(2) No Member of the Legislative Assembly is eligible to be a member of the audit committee.

(3) The Lieutenant Governor in Council shall designate one member of the audit committee as chairman.

(4) The audit committee may determine its rules of procedure.

21 On the request of the provincial auditor or the Minister of Finance, the chairman of the audit committee shall call a meeting of the audit committee to review any matter that, in the opinion of the provincial auditor or the Minister of Finance, as the case may be, should be considered by the committee.

22 The provincial auditor may give the audit committee any information that he considers appropriate to enable the audit committee to advise the Lieutenant Governor in Council on the result of any audit or examination made by him.

23 The provincial auditor shall present to the audit committee:

(a) his annual report; and

(b) any special report prepared pursuant to section 13;

before he submits the report to the Speaker.

GENERAL

24(1) The provincial auditor or the appointed auditor, as the case may be, is entitled:

(a) to free access, at all convenient times, to:

(i) all electronic data processing equipment and programs and documentation related to the electronic data processing equipment; and

(ii) all files, documents and other records relating to the accounts;

of every department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person that he is required to examine or audit or, in the case of the provincial auditor, with respect to which he is examining pursuant to a special assignment; and

(b) to require and receive from employees of a department of the Government of Saskatchewan, Crown Agency, Crown-controlled corporation or other person subject to examination or audit by him any information, reports and explanations that he considers necessary for the proper performance of his duties.

(2) The provincial auditor or an appointed auditor, as the case may be, may station in any department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or with any other person subject to examination or audit by him any employee of his office or advisor, specialist or consultant to enable him more effectively to carry out his duties, and the department, Crown agency, Crown-controlled corporation or other person subject to examination or audit shall provide the necessary office accommodation for the employee, advisor, specialist or consultant person so stationed.

25 The provincial auditor may examine any person on any matter relating to any account that is subject to an examination or audit by him, and, for the purposes of that examination, he may exercise all the powers of commissioners under The Public Inquiries Act.

26 Neither the provincial auditor nor any appointed auditor is required to lay any audit working papers of his office before the Legislative Assembly or any committee of the Legislature.

26.1 Where the auditor of a Crown agency or Crown-controlled corporation has been changed, the new auditor and the previous auditor shall deal with the transition in accordance with the rules of professional conduct as established from time to time by the Institute of Chartered Accountants of Saskatchewan.

27(1) An accountant, who is:

(a) a member in good standing of the Institute of Chartered Accountants of Saskatchewan;

(b) not employed by a department of the Goverment of Saskatchewan, a Crown agency, a Crown-controlled corporation or the office of the provincial auditor; and

(c) appointed by the Lieutenant Governor in Council;

shall audit the accounts of the office of the provincial auditor.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the office of the provincial auditor that the provincial auditor has or performs in relation to an audit performed pursuant to this Act.

(3) The auditor of the office of the provincial auditor shall submit his report to the Standing Committee of the Legislative Assembly on Public Accounts.

28 The provincial auditor may charge a reasonable fee for professional services provided by his office.

29 The provincial auditor, the employees in his office and any advisor, specialist or consultant engaged pursuant to section 7 are not liable in any action for any act done or not done or on any statement made by them in good faith in connection with any matter they are authorized or required to do under this Act.

30 The provincial auditor, any employee in his office, an appointed auditor, any employee of an appointed auditor or any advisor, specialist or consultant engaged pursuant to section 7:

(a) shall preserve secrecy with respect to all matters that come to his knowledge in the course of his employment or duties under this Act; and

(b) shall not communicate those matters to any person, other than when he is required to do so in connection with:

(i) the administration of this Act;

(ii) any proceedings under this Act; or

(iii) any proceedings in a court of law.

31 Subject to subsection 4(4), any sums required by the provincial auditor for the purposes of this Act are to be paid from moneys appropriated by the Legislature for the purpose.

32(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to The Department of Finance Act, as that Act existed on the day before the coming into force of this Act, is deemed to be appointed as provincial auditor pursuant to this Act.

(2) On the day this section comes into force, the members of the public service who are employed in the office of the provincial auditor cease to be employed in the public service and each such person becomes an employee of the office of the provincial auditor at a salary of not less than that he was receiving on the day before the day this section comes into force.

APPENDIX II

Reports of Appointed Auditors - Part I

The reports of the appointed auditors contained in this part are those reports where I have completed my audit procedures to determine if I am able to rely on the appointed auditor.

I have reported earlier in the report where I have determined that I am unable to rely on the report of the appointed auditor.

The following reports are included:

	Page #
Agricultural Development Corporation of Saskatchewan	2
Cablecom Corporation	4
CIC Industrial Interest Inc.	8
Crown Investments Corporation of Saskatchewan	12
Crown Investments Corporation of Saskatchewan Pension Plan	16
582188 Saskatchewan Ltd.	20
Many Islands Pipe Lines (Canada) Limited	24
Meadow Lake Sawmill Ltd.	28
Municipal Financing Corporation of Saskatchewan	32
North-Sask Electric Ltd.	35
Northern Forest Operations Ltd.	39
148606 Canada Incorporated	41
Power Corporation Superannuation Fund	45
Prairie Malt Limited	49
Saskatchewan Computer Utility Corporation	53
Saskatchewan Forest Products Corporation	54
Saskatchewan Mining Development Corporation	58
Saskatchewan Power Corporation	62
Saskatchewan Telecommunications	66
Saskatchewan Telecommunications International Inc.	69
Saskatchewan Telecommunications Superannuation Fund	72
Saskatchewan Transportation Company	75
Saskatchewan Water Corporation	76

Chartered Accountants 229 – 4th Ave. South, Suite 700 Saskatoon, Sask. S7K 4K3 (306) 244-9184

Price Waterhouse

March 10, 1988

AUDITORS' REPORT

To Members of the Legislative Assembly

We have made a study and evaluation of the system of internal control of Agricultural Development Corporation of Saskatchewan in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Agricultural Development Corporation of Saskatchewan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgment by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Our study and evaluation disclosed the following conditions in the system of internal control of the Agricultural Development Corporation of Saskatchewan as at December 31, 1987 which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Corporation may occur and not be detected within a timely period:

Documentation and Management Supervisory Controls

The Corporation does not maintain either accounting or computer procedures manuals nor a job descriptions manual. As a result, changes in staff or staff duties could lead to a breakdown in accounting control procedures including the inability of management personnel to readily determine their supervisory responsbilities.

Price Waterhouse

Chartered Accountants

Chartered Accountants

229 – 4th Ave. South, Suite 702
Saskatoon, Sa S7K 4K3

(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

February 19, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of Cablecom Corporation in effect as at August 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures and we considered necessary in the circumstances.

The Management of Cablecom Corporation is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

(a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

(b) all public money is fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

(c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of our evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance therewith may deteriorate.

In our opinion, the system of internal control of Cablecom Corporation in effect as at August 31, 1987, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material as defined by the Provincial Auditor.

Price Waterhouse

Chartered Accountants

Chartered Accountants
229 – 4th Ave. South Suite 702
Saskatoon, Sa S7K 4K3
(306) 244 6184
Telecopier (306) 653-3813

Price Waterhouse

February 19, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have examined the financial statements of Cablecom Corporation for the year ended August 31, 1987 and have issued our report dated February 19, 1988, thereon to the Members of the Legislative Assembly of Saskatchewan. We have also examined the system of internal control as at August 31, 1987 and have issued our report to you dated February 19, 1988. We have also made an examination to determine whether Cablecom Corporation complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, speding, revenue-raising, borrowing and investing activities during the the year ended August 31, 1988 and have issued our report to you dated February 19, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of Cablecom Corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; and (2) there has been a deficiency or loss to the Crown through fraud, default or mistake of any person.

During the course of our examinations, nothing came to our attention that would indicate to us that: (1) any officer or employee of the corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and (3) any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.

Price Waterhouse

Chartered Accountants

Chartered Accountants
229 – 4th Ave. South, Suite 702
Saskatoon, Sa S7K 4K3
(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

February 19, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have made an examination to determine whether Cablecom Corporation complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended August 31, 1987:

The Business Corporations Act

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, Cablecom Corporation has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended August 31, 1987.

Price Waterhouse

Chartered Accountants

Chartered Accountants

229 – 4th Ave. South, Suite 702
Saskatoon, Sa S7K 4K3

(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

February 19, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of CIC Industrial Interests Inc. in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures and we considered necessary in the circumstances.

The Management of CIC Industrial Interests Inc. is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

(a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

(b) all public money is fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

(c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of our evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance therewith may deteriorate.

In our opinion, the system of internal control of CIC Industrial Interests Inc. in effect as at December 31, 1987, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material ~~as defined by the Provincial Auditor~~.

to the financial statements.

Price Waterhouse

Chartered Accountants

Chartered Accountants
229 – 4th Ave. South, Suite 702
Saskatoon, Sa S7K 4K3
(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

February 19, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have examined the financial statements of CIC Industrial Interests Inc. for the year ended December 31, 1987 and have issued our report dated February 19, 1988, thereon to the Members of the Legislative Assembly of Saskatchewan. We have also examined the system of internal control as at December 31, 1987 and have issued our report to you dated February 19, 1988. We have also made an examination to determine whether CIC Industrial Interests Inc. complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, speding, revenue-raising, borrowing and investing activities during the the year ended December 31, 1988 and have issued our report to you dated February 19, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of CIC Industrial Interests Inc. has wilfully or negligently omitted to collect or receive public money belonging to the Crown; and (2) there has been a deficiency or loss to the Crown through fraud, default or mistake of any person.

During the course of our examinations, nothing came to our attention that would indicate to us that: (1) any officer or employee of the corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and (3) any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.

Price Waterhouse

Chartered Accountants

Chartered Accountants
229 – 4th Ave. South, Suite 702
Saskatoon, Sa S7K 4K3
(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

February 19, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have made an examination to determine whether CIC Industrial Interests Inc. complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1987:

The Business Corporations Act

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, CIC Industrial Interests Inc. has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1987.

Price Waterhouse

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of Crown Investments Corporation of Saskatchewan in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Crown Investments Corporation of Saskatchewan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control (such as its inability to control collusion and forgery), the system of internal control may not prevent or detect errors or fraud even if material in amount. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of Crown Investments Corporation of Saskatchewan in effect as at December 31, 1987, taken as a whole, was, except for the inherent limitations described in the preceding paragraph, sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material.

Clarkson Gordon

Chartered Accountants

Regina, Canada,
March 25, 1988.

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have, with regard to Crown Investments Corporation of Saskatchewan, examined and reported to the Legislative Assembly on:

- the consolidated financial statements for the year ended December 31, 1987
- the system of internal control as at December 31, 1987
- compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1987.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examination, nothing has come to our attention which we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) of The Provincial Auditor Act.

Clarkson Gordon

Regina, Canada,
March 25, 1988.

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have made an examination to determine whether Crown Investments Corporation of Saskatchewan complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1987:

The Crown Corporations Act, 1978
The Department of Finance Act, 1983
Treasury Board Regulations and Policy Directives
Orders-in-Council

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, Crown Investments Corporation of Saskatchewan has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1987.

Clarkson Gordon

Regina, Canada,
March 25, 1988.

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of Crown Investments Corporation of Saskatchewan Pension Plan in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Crown Investments Corporation of Saskatchewan Pension Plan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control (such as its inability to control collusion and forgery), the system of internal control may not prevent or detect errors or fraud even if material in amount. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of Crown Investments Corporation of Saskatchewan Pension Plan in effect as at December 31, 1987, taken as a whole, was, except for the inherent limitations described in the preceding paragraph, sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material.

Clarkson Gordon

Regina, Canada,
May 21, 1988.

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have, with regard to Crown Investments Corporation of Saskatchewan Pension Plan examined and reported to the Legislative Assembly on:

- the financial statements of the Pension Plan - Pension Fund and Pension Plan - Retirement Income Fund for the year ended December 31, 1987
- the system of internal control as at December 31, 1987
- compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1987.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examination, nothing has come to our attention which we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) of The Provincial Auditor Act.

Clarkson Gordon

Regina, Canada,
May 21, 1988.

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have made an examination to determine whether Crown Investments Corporation of Saskatchewan Pension Plan complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1987:

The Crown Corporations Act, 1978
The Department of Finance Act, 1983
Treasury Board Regulations and Policy Directives
The Pension Benefits Act, 1981
Text of the Crown Investments Corporation Pension Plan
(D.N.R. Reg. No. 39562)

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, Crown Investments Corporation of Saskatchewan Pension Plan has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1987.

Clarkson Gordon

Regina, Canada,
May 21, 1988.

Chartered Accountants

Price Waterhouse

February 19, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of 582188 Saskatchewan Ltd. in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures and we considered necessary in the circumstances.

The Management of 582188 Saskatchewan Ltd. is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

(a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

(b) all public money is fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

(c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of our evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance therewith may deteriorate.

In our opinion, the system of internal control of 582188 Saskatchewan Ltd. in effect as at December 31, 1987, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material as defined by the Provincial Auditor.

Price Waterhouse

Chartered Accountants

Price Waterhouse

February 19, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have examined the financial statements of 582188 Saskatchewan Ltd. for the year ended December 31, 1987 and have issued our report dated February 19, 1988, thereon to the Members of the Legislative Assembly of Saskatchewan. We have also examined the system of internal control as at December 31, 1987 and have issued our report to you dated February 19, 1988. We have also made an examination to determine whether 582188 Saskatchewan Ltd. complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, speding, revenue-raising, borrowing and investing activities during the the year ended December 31, 1988 and have issued our report to you dated February 19, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of 582188 Saskatchewan Ltd. has wilfully or negligently omitted to collect or receive public money belonging to the Crown; and (2) there has been a deficiency or loss to the Crown through fraud, default or mistake of any person.

During the course of our examinations, nothing came to our attention that would indicate to us that: (1) any officer or employee of the corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and (3) any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.

Price Waterhouse

Chartered Accountants

Price Waterhouse

February 19, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have made an examination to determine whether 582188 Saskatchewan Ltd. complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1987:

The Business Corporations Act

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, 582188 Saskatchewan Ltd. has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1987.

Price Waterhouse

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of Many Islands Pipe Lines (Canada) Limited in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Many Islands Pipe Lines (Canada) Limited is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control (such as its inability to control collusion and forgery), the system of internal control may not prevent or detect errors or fraud even if material in amount. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of Many Islands Pipe Lines (Canada) Limited in effect as at December 31, 1987, taken as a whole, was, except for the inherent limitations described in the preceding paragraph, sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material.

Clarkson Gordon

Regina, Canada,
March 31, 1988.

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have, with regard to Many Islands Pipe Lines (Canada) Limited examined and reported to the Legislative Assembly on:

- the financial statements for the year ended December 31, 1987
- the system of internal control as at December 31, 1987
- compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1987.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examination, nothing has come to our attention which we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) of The Provincial Auditor Act.

Clarkson Gordon

Regina, Canada,
March 31, 1988.

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have made an examination to determine whether Many Islands Pipe Lines (Canada) Limited complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1987:

The Power Corporation Act
The Crown Corporations Act, 1978
The Department of Finance Act, 1983
The Power Corporation Superannuation Act
The Superannuation (Supplementary Provisions) Act
Treasury Board Regulations and Policy Directives
Orders-in-Council

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, Many Islands Pipe Lines (Canada) Limited has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1987.

Clarkson Gordon

Regina, Canada,
March 31, 1988.

Chartered Accountants

KPMG Peat Marwick

Chartered Accountants

200 Saskatchewan Place
1870 Albert Street
Regina, Saskatchewan S4P 4B7

Telephone (306) 757-1211
Telecopier (306) 757-5435

AUDITORS' REPORT

To Members of the Legislative Assembly, Province of Saskatchewan

We have made a study and evaluation of the system of internal control of Meadow Lake Sawmill Ltd. in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Meadow Lake Sawmill Ltd. is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with managements authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any systems of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

KPMG Peat Marwick

Our study and evaluation disclosed the following conditions in the system of internal control of Meadow Lake Sawmill Ltd. as at December 31, 1987 which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Meadow Lake Sawmill Ltd. may occur and not be detected within a timely period:

- A lack of segregation of duties, resulting from the limitations of staff size, weakens the accounting system and the system of internal controls at the sawmill. Management at the sawmill have not been active in the design and supervision of these systems. An advisory board was established during the year to monitor the operations. As well, an accounting and internal control system policy and procedures manual does not exist.

  Lack of management involvement in the design and supervision of the accounting system and the system of internal controls greatly increases the risk that a material error or fraud could occur.

- We observed that the same person is responsible for recording wood receipts, for accepting delivery of wood receipts and for recording contractors payroll related to wood receipts. Also, these records are not reviewed on a timely basis.

  As a result, the possibility exists that funds may be misappropriated without ready detection. Concealment of a misappropriation is further facilitated because not all of these records are reviewed by a member of management.

Peat Marwick

Chartered Accountants

Regina, Canada

March 14, 1988

KPMG Peat Marwick

Chartered Accountants

300 Park Centre
1230 Blackfoot Drive
Regina, Saskatchewan S4S 7G4

Telephone (306) 757-1211
Telecopier (306) 757-5435

AUDITORS' REPORT

To Members of the Legislative Assembly, Province of Saskatchewan

We have examined the financial statements of Meadow Lake Sawmill Ltd. for the year ended December 31, 1987 and have issued our report dated March 14, 1988 and June 29, 1988 thereon to the Legislative Assembly. We have also examined the system of internal control for the year ended December 31, 1987 and have issued our report to the Legislative Assembly dated March 14, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of the Meadow Lake Sawmill Ltd. has willfully or negligently omitted to collect or receive public money belonging to the Crown; (2) an expenditure was made for which there was no authority or which was not properly vouchered or certified; and (3) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

During the course of these examinations, nothing came to our attention that would indicate to us that: (1) any officer or employee of the Meadow Lake Sawmill Ltd. has willfully or negligently omitted to collect or receive public money belonging to the Crown; (2) there has been a deficiency or loss to the Crown through fraud, default or mistake of any person; and (3) any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.

KPMG Peat Marwick

However, our audit report was qualified and, as more fully discussed in note 4 to the consolidated financial statements, the corporation has recorded interest income from the income debenture to the extent that cash is estimated to be available prior to the earlier of commencement of the commercial operations of the new paper mill now being constructed and December 31, 1989. There is uncertainty as to the timing and amount of interest and principal payments which will ultimately be received on the income debenture. In our opinion, because of the inability of the corporation to determine the timing and amount of such payments, it is not possible to apply the accrual method. Consequently, these financial statements are not prepared in accordance with generally accepted accounting principles which would limit interest recognized to cash received. To December 31, 1987 no cash has been received. At December 31, 1987 interest receivable, retained earnings, debenture interest income and net income were overstated by $63,534,000.

We had previously, under date of March 14, 1988, reported under section 12 of the Provincial Auditors' Act. Our previous report has been withdrawn.

Peat Marwick

Chartered Accountants

Regina, Canada
March 14, 1988 (except as to the final two paragraphs above which are as of June 29, 1988)

Auditors' Report

To: The Members of the Legislative Assembly
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of the Municipal Financing Corporation of Saskatchewan in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of the Municipal Financing Corporation of Saskatchewan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of the system are to provide management with reasonable, but no absolute assurance that:

a) The accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) All public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) Transactions are executed in accordance with managements authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adquate statutory authority; and

d) Essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of the Municipal Financing Corporation of Saskatchewan in effect as at December 31, 1987, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material as defined during our audit examination.

E.J.C. Dudley & Co.
Chartered Accountants

Regina, Saskatchewan
February 02, 1988

Auditors' Report

To: W.G. Lutz, Provincial Auditor

We have examined the financial statements of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 1987 and have issued our report dated February 02, 1988 thereon to the Legislative Assembly. We have made a study and evaluation of the system of internal control as at December 31, 1987 and have issued out report to the Members of the Legislative Assembly dated February 02, 1988. We have also made an examination to determine whether the Municipal Financing Corporation of Saskatchewan complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1987 and have issued our report to the Members of the Legislative Assembly dated February 02, 1988.

Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which:

1) Any officer or employee of the Municipal Financing Corporation of Saskatchewan has wilfully or negligently omitted to collect or receive public money belonging to the Crown.

2) There has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

During the course of these examinations, nothing came to our attention that would indicate to us that:

1) Any officer or employee of the Municipal Financing Corporation of Saskatchewan has wilfully or negligently omitted to collect or receive public money belonging to the Crown.

2) There has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

3) Any transaction was made without probity, prudence, or in any manner which has resulted or could result in diminished accountability to the Legislative Assembly.

E.J.C. Dudley & Co.
Chartered Accountants

Regina, Saskatchewan
February 02, 1988

E. J. C. DUDLEY & CO.
CHARTERED ACCOUNTANTS

2323 BROAD ST
REGINA, SASKATCHEWAN
S4P 1Y9
TELEPHONE 757-5555

DRAWER 718
WYNYARD, SASKATCHEWAN
S0A 4T0
TELEPHONE 554-2324

L. W. POLLON, C.A.
L. A. WIRTH, C.A.
R. H. LAMONT, C.A.
R. A. FRAPE, C.A.

Auditors' Report

To: The Members of the Legislative Assembly
Province of Saskatchewan

We have made an examination to determine whether the Municipal Financing Corporation of Saskatchewan complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1987:

1) Legislative Assembly of Saskatchewan as expressed in the Municipal Financing Corporation Act (November 1983).

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the Municipal Financing Corporation of Saskatchewan has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1987.

E.J.C. Dudley & Co.
Chartered Accountants

Regina, Saskatchewan
February 2, 1988

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of North-Sask Electric Ltd. in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of North-Sask Electric Ltd. is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control (such as its inability to control collusion and forgery), the system of internal control may not prevent or detect errors or fraud even if material in amount. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of North-Sask Electric Ltd. in effect as at December 31, 1987, taken as a whole, was, except for the inherent limitations described in the preceding paragraph, sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material.

Clarkson Gordon

Regina, Canada,
March 31, 1988.

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone (306) 569-1234
Telecopier (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have, with regard to North-Sask Electric Ltd. examined and reported to the Legislative Assembly on:

- the financial statements for the year ended December 31, 1987
- the system of internal control as at December 31, 1987
- compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1987.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examination, nothing has come to our attention which we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) of The Provincial Auditor Act.

Clarkson Gordon

Regina, Canada,
March 31, 1988.

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have made an examination to determine whether North-Sask Electric Ltd. complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1987:

The Power Corporation Act
The Crown Corporations Act, 1978
The Department of Finance Act, 1983
The Power Corporation Superannuation Act
The Superannuation (Supplementary Provisions) Act
Treasury Board Regulations and Policy Directives
Orders-in-Council

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, North-Sask Electric Ltd. has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1987.

Clarkson Gordon

Regina, Canada,
March 31, 1988.

Chartered Accountants

Chartered Accountants

229 – 4th Ave South, Suite 702
Saskatoon, S S7K 4K3

(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

December 3, 1987

AUDITORS' REPORT

To Members of the Legislative Assembly

We have made a study and evaluation of the system of internal control of Northern Forest Operations Ltd. in effect as at October 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Northern Forest Operations Ltd. is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the system of internal control of Northern Forest Operations Ltd. which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Northern Forest Operations Ltd. may occur and not be detected within a timely period.

Due to limitations of staff size, adequate segregation duties was not maintained throughout the year. Certain accounting records were not kept up-to-date or in sufficient detail to detect potential errors or irregularities.

In certain respects, management review procedures applied were not in sufficient detail to detect errors or irregularities in the accounts which would be material to the operations of the company.

Price Waterhouse

Chartered Accountants

Chartered Accountants
229 – 4th Ave. South. Suite 702
Saskatoon. Sa S7K 4K3
(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

February 19, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of 148606 Canada Incorporated in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures and we considered necessary in the circumstances.

The Management of 148606 Canada Incorporated is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

(a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

(b) all public money is fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

(c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of our evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance therewith may deteriorate.

In our opinion, the system of internal control of 148606 Canada Incorporated in effect as at December 31, 1987, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material as defined by the Provincial Auditor.

Chartered Accountants

Chartered Accountants
229 – 4th Ave. South, Suite 702
Saskatoon, Sa S7K 4K3
(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

February 19, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have examined the financial statements of 148606 Canada Incorporated for the year ended December 31, 1987 and have issued our report dated February 19, 1988, thereon to the Members of the Legislative Assembly of Saskatchewan. We have also examined the system of internal control as at December 31, 1987 and have issued our report to you dated February 19, 1988. We have also made an examination to determine whether 148606 Canada Incorporated complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, speding, revenue-raising, borrowing and investing activities during the the year ended December 31, 1988 and have issued our report to you dated February 19, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of 148606 Canada Incorporated has wilfully or negligently omitted to collect or receive public money belonging to the Crown; and (2) there has been a deficiency or loss to the Crown through fraud, default or mistake of any person.

During the course of our examinations, nothing came to our attention that would indicate to us that: (1) any officer or employee of the corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and (3) any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.

Price Waterhouse

Chartered Accountants

Appendix II

Chartered Accountants

229 – 4th Ave. South, Suite 702
Saskatoon, Sa S7K 4K3

(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

February 19, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have made an examination to determine whether 148606 Canada Incorporated complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1987:

The Business Corporations Act

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, 148606 Canada Incorporated has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1987.

Price Waterhouse

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of Power Corporation Superannuation Fund in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Power Corporation Superannuation Fund is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control (such as its inability to control collusion and forgery), the system of internal control may not prevent or detect errors or fraud even if material in amount. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of Power Corporation Superannuation Fund in effect as at December 31, 1987, taken as a whole, was, except for the inherent limitations described in the preceding paragraph, sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material.

Clarkson Gordon

Regina, Canada,
March 31, 1988.

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have, with regard to Power Corporation Superannuation Fund examined and reported to the Legislative Assembly on:

- the financial statements for the year ended December 31, 1987
- the system of internal control as at December 31, 1987
- compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1987.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examination, nothing has come to our attention which we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) of The Provincial Auditor Act.

Clarkson Gordon

Regina, Canada,
March 31, 1988.

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have made an examination to determine whether Power Corporation Superannuation Fund complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1987:

The Power Corporation Act
The Crown Corporations Act, 1978
The Department of Finance Act, 1983
The Power Corporation Superannuation Act
The Superannuation (Supplementary Provisions) Act
Treasury Board Regulations and Policy Directives
Orders-in-Council

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, Power Corporation Superannuation Fund has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1987.

Clarkson Gordon

Regina, Canada,
March 31, 1988.

Chartered Accountants

Chartered Accountants
229 – 4th Ave South, Suite 702
Saskatoon, S S7K 4K3
(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

February 5, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of Prairie Malt Limited in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Prairie Malt Limited is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. Pursuant to our responsibilities under Section 11(1) of The Provincial Auditor's Act, we are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

(a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

(b) all public money is fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

(c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of our evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance therewith may deteriorate.

Our study and evaluation disclosed the following condition in the system of internal controls of Prairie Malt Limited as at December 31, 1987, which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Prairie Malt Limited might have occurred and not be detected within a timely period:

> Company policy requires that "all fees to consultants, agents and attornies in excess of $10,000 annually" must be approved by the executive committee prior to completion of any formal or informal arrangements for services. Contrary to this policy, the executive committee was not informed of a significant payment which was made to a sales agent in the United States. The payment was calculated as 20% of the contract selling price and amounted to $149,352 U.S. dollars.

This particular condition resulted not from the absence of control procedures, but rather from non-compliance with the documented policies. As soon as the executive committee became aware of this condition, we were instructed to perform a special investigative audit and on completion of that special audit disciplinary action was taken to prevent the situation from re-occurring. This condition did not result in any loss to the Crown and all amounts were properly recorded in the accounts of the corporation.

Price Waterhouse

Chartered Accountants

Chartered Accountants
229 – 4th Ave South, Suite 702
Saskatoon, S S7K 4K3
(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

February 5, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have examined the financial statements of Prairie Malt Limited for the year ended December 31, 1987 and have issued our report dated February 5, 1988 thereon to the members of the Legislative Assembly, Province of Saskatchewan. We have also examined the system of internal control as at December 31, 1987 and have issued our report to you dated February 5, 1988. We have also made an examination to determine whether Prairie Malt Limited complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1987 and have issued our report to you dated February 5, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of Prairie Malt Limited has wilfully or negligently omitted to collect or receive public money belonging to the Crown; and (2) there has been a deficiency or loss to the Crown through fraud, default or mistake of any person.

During the course of these examinations, nothing came to our attention that would indicate to us that: (1) any officer or employee of Prairie Malt Limited has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and (3) any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.

Price Waterhouse

Chartered Accountants

Appendix II

Chartered Accountants

229 – 4th Ave South, Suite 702
Saskatoon, S S7K 4K3

(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

February 5, 1988

AUDITORS' REPORT

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have made an examination to determine whether Prairie Malt Limited complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1987:

The Business Corporations Act
The Saskatchewan Corporations Capital Tax Act

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, Prairie Malt Limited has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1987.

Price Waterhouse

Chartered Accountants

Thorne Ernst & Whinney
Chartered Accountants

1170 Canada Trust Tower
1801 Hamilton Street
Regina, Saskatchewan, Canada
S4P 4B4

(306) 359-7000

AUDITORS' REPORT
[pursuant to Section 12(1) of The
Provincial Auditor Act as amended ("the Act")]

To the Members of the Legislative Assembly
Province of Saskatchewan

We are the auditors of Saskatchewan Computer Utility Corporation ("SaskComp") and under date of March 3, 1988, we rendered an unqualified opinion, in accordance with Section 11(3) of the Act, on the balance sheet of SaskComp as at December 31, 1987 and the statements of operations and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The financial statements and our report thereon should be read with this report.

Further, we have examined the transactions that came to our notice in the course of examination of the financial statements of SaskComp for the year ended December 31, 1987 to determine if they were in accordance with The Crown Corporations Act, The Saskatchewan Computer Utility Corporation Act and The Department of Finance Act (and any directives given to the Company pursuant to these Acts). Our examination of these transactions was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these transactions were, in all significant respects, in compliance with the authorities specified.

Based on the examination referred to in this report, there are no matters other than those reported in the financial statements and our auditors' report thereon that we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly.

Thorne Ernst & Whinney

March 3, 1988

Member of Ernst & Whinney International

Chartered Accountants
229 – 4th Ave. South, Suite 702
Saskatoon, S S7K 4K3
(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

December 3, 1987

AUDITORS' REPORT

To the Members of the Legislative
Assembly, Province of Saskatchewan

We have made a study and evaluation of the system of internal control of Saskatchewan Forest Products Corporation in effect as at October 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The Management of Saskatchewan Forest Products Corporation is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgment by management are required to assess the expected benefits and related costs of control procedures. Pursuant to our responsibilities under Section 11(1) of The Provincial Auditor's Act, we are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with managements authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the system of internal control of Saskatchewan Forest Products Corporation as at October 31, 1987 which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Saskatchewan Forest Products Corporation may occur and not be detected within a timely period:

Senior management and Directors' review of financial statements and other financial information are not always conducted on a timely basis.

During our examination we noted that management does not conduct a recurring detailed review of accounts payable accruals. We also noted that neither monthly nor quarterly financial information were prepared on a consolidated basis for review by the Board of Directors. Furthermore, Order-in-Council #1899/49 requires that the Directors meet at least once every three months for the dispatch of the business of the corporation. During our examination, we noted that there were only two formal meetings of the Board of Directors where financial information was reviewed. This lack of regular review of financial information by both senior management and the Directors results in more than a relatively low risk that material errors or fraud may occur and not be detected within a timely period.

Chartered Accountants

Chartered Accountants
229 – 4th Ave. South, Suite 702
Saskatoon, S S7K 4K3
(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

December 3, 1987

AUDITORS' REPORT

To the Members of the Legislative
Assembly, Province of Saskatchewan

We have examined the financial statements of Saskatchewan Forest Products Corporation for the year ended October 31, 1987 and have issued our report dated December 3, 1987 thereon to the Legislative Assembly. We have examined the system of internal control as at October 31, 1987 and have issued our report to you dated December 3, 1987. We have also made an examination to determine whether Saskatchewan Forest Products Corporation complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended October 31, 1987 and have issued our report to you dated December 3, 1987. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of Saskatchewan Forest Products Corporation has wilfully and negligently omitted to collect or receive public money belonging to the Crown; and (2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

During the course of these examinations, nothing came to our attention that would indicate to us that: (1) any officer or employee of Saskatchewan Forest Products Corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and (3) any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.

Price Waterhouse

Chartered Accountants

Chartered Accountants
229 – 4th Ave South, Suite 702
Saskatoon, S S7K 4K3
(306) 244 6164
Telecopier (306) 653-3813

Price Waterhouse

December 3, 1987

AUDITORS' REPORT

To the Members of the Legislative
Assembly, Province of Saskatchewan

We have made an examination to determine whether Saskatchewan Forest Products Corporation complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended October 31, 1987:

The Crown Corporations Act, 1978
Orders-in-Council

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, Saskatchewan Forest Products Corporation has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended October 31, 1987 except that, contrary to Order-in-Council #1899/49 which requires that the Board of Directors meet at least once every three months, there were only two formal meetings of the Directors during the year.

Price Waterhouse

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
Suite 200
219 Robin Crescent
Saskatoon, Canada S7L 6M8
Telephone: (306) 652-6594

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Sakatchewan:

We have made a study and evaluation of the system of internal control of Saskatchewan Mining Development Corporation in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances. In accordance with your instructions, we did not study and evaluate the systems of internal control present within joint ventures not operated by Saskatchewan Mining Development Corporation. Our study and evaluation was limited to those systems of internal control directly under the control of corporate management of Saskatchewan Mining Development Corporation.

The management of Saskatchewan Mining Development Corporation is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11 (1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute, assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue;

c) transactions are executed in accordance with management's authorization, money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control (such as its inability to control collusion or forgery), the system of internal control may not prevent or detect errors or fraud even if material in amount. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control directly under the control of corporate management of Saskatchewan Mining Development Corporation in effect as at at December 31, 1987, taken as a whole, was, except for the inherent limitations described in the preceding paragraph, sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors in amounts that would be material.

Saskatoon, Canada,
June 27, 1988.

Clarkson Gordon
Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
Suite 200
219 Robin Crescent
Saskatoon, Canada S7L 6M8
Telephone: (306) 652-6594

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have, with regard to Saskatchewan Mining Development Corporation, examined and reported to the Legislative Assembly on:

- the financial statements for the year ended December 31, 1987
- the system of internal control as at December 31, 1987
- compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1987.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examination, nothing has come to our attention which we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) of The Provincial Auditor Act.

Saskatoon, Canada
June 28, 1988.

Clarkson Gordon
Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
Suite 200
219 Robin Crescent
Saskatoon Canada S7L 6M8
Telephone (306) 652-6594
Telecopier (306) 653-1553

To the Members of the Legislative Assembly
Province of Saskatchewan:

We have made an examination to determine whether Saskatchewan Mining Development Corporation complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1987.

Saskatchewan Mining Development Corporation Act.
Crown Corporation Act.
Department of Finance Act.
The Crown Minerals Act
The Crown Minerals Royalty Schedule, 1986
Orders-in-Council respecting
Saskatchewan Mining Development Corporation.
Treasury Board Regulations respecting
Saskatchewan Mining Development Corporation.

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, Saskatchewan Mining Development Corporation has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1987.

Clarkson Gordon
Chartered Accountants

Saskatoon, Canada
June 27, 1988.

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of Saskatchewan Power Corporation in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Saskatchewan Power Corporation is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control (such as its inability to control collusion and forgery), the system of internal control may not prevent or detect errors or fraud even if material in amount. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of Saskatchewan Power Corporation in effect as at December 31, 1987, taken as a whole, was, except for the inherent limitations described in the preceding paragraph, sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material.

Clarkson Gordon

Chartered Accountants

Regina, Canada,
June 22, 1988.

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone: (306) 569-1234
Telecopier: (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have, with regard to Saskatchewan Power Corporation, examined and reported to the Legislative Assembly on:

- the financial statements for the year ended December 31, 1987
- the system of internal control as at December 31, 1987
- compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1987.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examination, nothing has come to our attention which we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) of The Provincial Auditor Act.

Clarkson Gordon

Regina, Canada,
March 31, 1988.

Chartered Accountants

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
900 Bank of Montreal Building
2103-11th Avenue
Regina, Canada S4P 3Z8
Telephone (306) 569-1234
Telecopier (306) 757-4753

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have made an examination to determine whether Saskatchewan Power Corporation complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1987:

The Power Corporation Act
The Crown Corporations Act, 1978
The Department of Finance Act, 1983
The Power Corporation Superannuation Act
The Superannuation (Supplementary Provisions) Act
Treasury Board Regulations and Policy Directives
Orders-in-Council

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, Saskatchewan Power Corporation has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1987.

Clarkson Gordon

Regina, Canada,
March 31, 1988.

Chartered Accountants

Touche Ross & Co.
Chartered Accountants
1874 Scarth Street, Suite 1700
Regina, Saskatchewan S4P 4B3
Telephone: 306 525-8791

Touche Ross

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan.

We have examined the accompanying report entitled "Management Report on Internal Control at Saskatchewan Telecommunications" dated June 29, 1988. Our examination was made in accordance with generally accepted auditing standards; it included discussion, enquiry and analysis of senior management's control systems in the major operating areas of the corporation, discussion and enquiry concerning the application of the criteria of internal control (referred to in the attached report) in the major operating areas of the corporation, evaluation and tests of internal control procedures performed as part of our audit of the financial statements for the period ended December 31, 1987, and such other procedures as we considered necessary in the circumstances.

In our opinion, based on the performance of the above procedures, nothing has come to our attention that would cause us to believe that management's conclusion on the corporation's systems of internal control for the year ended December 31, 1987, as described in the attached report, is not fairly presented in accordance with the criteria presented therein.

Touche Ross & Co.

Regina, Saskatchewan
June 29, 1988.

Chartered Accountants

MANAGEMENT REPORT ON INTERNAL CONTROL AT SASKATCHEWAN TELECOMMUNICATIONS

Introduction

In order to discharge the reponsibility delegated to it by the Board of Directors to manage the affairs of the corporation, management maintains a system of internal control. The system of internal control comprises the plan of organization and all the co-ordinate systems established by management to assist in achieving the Board's objective of ensuring, as far as practical, the orderly and efficient conduct of its business, including the safeguarding of assets, the reliability of accounting records, the timely preparation of reliable financial information and compliance with its various legislative requirements.

Inherent limitations of internal control

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions.

Criteria of internal control

Management's evaluation of the adequacy of the system of internal control is based upon the following criteria:

a) The commitment of the Board of Directors and the Audit Committee in dealing with audit issues, ensuring effective management control and adopting sound financial reporting practices.

b) The attitude of senior management to demonstrate and support adherence to policies and procedures and codes of conduct.

c) The overall organizational structure, providing an effective framework for planning, directing, and controlling the corporation's business operations and information systems, including segregation of functions and responsibilities, and the attitudes, training and competence of personnel.

d) The regulatory environment within which the corporation operates, to the extent that such an environment is supportive of control.

e) Planning, and reporting systems including budgeting, forecasting and profit planning and responsibility accounting, together with comprehensive accounting and information systems.

f) Internal audit and security functions with qualified personnel and with appropriate authority and reporting relationships.

g) Written policies and standards for developing and maintaining management control systems (including, in particular, procedures for authorization and for physical security of assets) and procedures and supporting accounting and information systems, including standards for the development, modification and use of computer programs and data files.

Conclusion

Based on these evaluation criteria, the system of internal control in existence during the year ended December 31, 1987, provided reasonable assurance that, in all material respects:

a) the accounts were faithfully and properly kept to permit the preparation of financial statements in accordance with an appropriate basis of accounting;

b) all public money was fully accounted for and properly disposed of and the rules and procedures applied were sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions were executed in accordance with management's authorization, public money expended was applied to the purpose for which it was appropriated by the Legislature and expenditures had adequate statutory authority;

d) essential records were maintained and the rules and procedures applied were sufficient to safeguard and control public money against loss from unauthorized use or disposition.

R.E. Bason
Vice-President
Finance and Corporate Development
Regina, Saskatchewan
June 29, 1988

Touche Ross & Co.
Chartered Accountants
1874 Scarth Street, Suite 1700
Regina, Saskatchewan S4P 4B3
Telephone: 306 525-8791

Touche Ross

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan.

We have examined the accompanying report entitled "Management Report on Internal Control at Saskatchewan Telecommunications International, Inc." dated June 30, 1988. Our examination was made in accordance with generally accepted auditing standards; it included discussion, enquiry and analysis of senior management's control systems in the major operating areas of the corporation, discussion and enquiry concerning the application of the criteria of internal control (referred to in the attached report) in the major operating areas of the corporation, evaluation and tests of internal control procedures performed as part of our audit of the financial statements for the period ended December 31, 1987, and such other procedures as we considered necessary in the circumstances.

In our opinion, based on the performance of the above procedures, nothing has come to our attention that would cause us to believe that management's conclusion on the corporation's systems of internal control for the year ended December 31, 1987, as described in the attached report, is not fairly presented in accordance with the criteria presented therein.

Touche Ross & Co.

Chartered Accountants

Regina, Saskatchewan
June 30, 1988.

SaskTel International

2121 Saskatchewan Drive
Regina, Saskatchewan
Canada, S4P 3Y2

MANAGEMENT REPORT ON INTERNAL CONTROL AT
SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL, INC.

Introduction

In order to discharge the responsibility delegated to it by the Board of Directors to manage the affairs of the corporation, management maintains a system of internal control. The system of internal control comprises the plan of organization and all the co-ordinate systems established by management to assist in achieving the Board's objective of ensuring, as far as practical, the orderly and efficient conduct of its business, including the safeguarding of assets, the reliability of accounting records, the timely preparation of reliable financial information and compliance with its various legislative requirements.

Inherent limitations of internal control

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions.

Criteria of internal control

Management's evaluation of the adequacy of the system of internal control is based upon the following criteria:

a) The commitment of the Board of Directors and the Audit Committee in dealing with audit issues, ensuring effective management control and adopting sound financial reporting practices.

b) The attitude of senior management to demonstrate and support adherence to policies and procedures and codes of conduct.

c) The overall organizational structure, providing an effective framework for planning, directing, and controlling the corporation's business operations and information systems, including segregation of functions and responsibilities, and the attitudes, training and competence of personnel.

d) The regulatory environment within which the corporation operates, to the extent that such an environment is supportive of control.

f) Internal audit and security funtions with qualified personnel and with appropriate authority and reporting relationships.

g) Written policies and standards for developing and maintaining management control systems (including, in particular, procedures for authorization and for physical security of assets) and procedures and supporting accounting and information systems, including standards for the development, modification and use of computer programs and data files.

Conclusion

Based on these evaluation criteria, the system of internal control in existence during the year ended December 31, 1987, provided reasonale assurance that, in all material respects:

a) the accounts were faithfully and properly kept to permit the preparation of financial statements in accordance with an appropriate basis of accounting;

b) all public money was fully accounted for and properly disposed of and the rules and procedures applied were sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions were executed in accordance with management's authorization, public money expended was applied to the purpose for which it was appropriated by the Legislature and expenditures had adequate statutory authority;

d) essential records were maintained and the rules and procedures applied were sufficient to safeguard and control public money against loss from unauthorized use of disposition.

W.A. Bruce
President
Regina, Saskatchewan
June 30, 1988

Touche Ross & Co.
Chartered Accountants
1874 Scarth Street, Suite 1700
Regina, Saskatchewan S4P 4B3
Telephone: 306 525-6791

Touche Ross

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan.

We have examined the accompanying report entitled "Management Report on Internal Control at Saskatchewan Telecommunications Superannuation Fund" dated February 15, 1989. Our examination was made in accordance with generally accepted auditing standards; it included discussion, enquiry and analysis of management's control systems in the major operating areas of the Fund, discussion and enquiry concerning the application of the criteria of internal control (referred to in the attached report) in the major operating areas of the Fund, evaluation and tests of internal control procedures performed as part of our audit of the financial statements for the year ended December 31, 1987, and such other procedures as we considered necessary in the circumstances.

In our opinion, based on the performance of the above procedures, nothing has come to our attention that would cause us to believe that management's conclusion on the system of internal control at Saskatchewan Telecommunications Superannuation Fund for the year ended December 31, 1987, as described in the attached report, is not fairly presented in accordance with the criteria presented therein.

Touche Ross & Co.

Regina, Saskatchewan
February 15, 1989.

Chartered Accountants

SaskTel

2121 Saskatchewan Drive
Regina, Saskatchewan
S4P 3Y2

MANAGEMENT REPORT ON INTERNAL CONTROL AT SASKATCHEWAN TELECOMMUNICATIONS SUPERANNUATION FUND

Introduction

In order to discharge the reponsibility of the Board of Trustees' to manage the affairs of the Fund, management maintains a system of internal control. The system of internal control comprises the plan of organization and all the co-ordinate systems established by management to assist in achieving the Board of Trustees' objective of ensuring, as far as practical, the orderly and efficient conduct of its business, including the safeguarding of assets, the reliability of accounting records, the timely preparation of reliable financial information and compliance with its various legislative requirements.

Inherent limitations of internal control

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions.

Criteria of internal control

Management's evaluation of the adequacy of the system of internal control is based upon the following criteria:

a) The commitment of the Board of Trustees' in dealing with audit issues, ensuring effective management control and adopting sound financial reporting practices.

b) The attitude of management to demonstrate and support adherence to policies and procedures and codes of conduct.

c) The overall organizational structure, providing an effective framework for planning, directing, and controlling the Fund's operations and information systems, including segregation of functions and responsibilities, and the attitudes, training and competence of personnel.

d) Planning and reporting systems including budgeting, actuarial valuations and earnings planning and responsibility accounting, together with comprehensive accounting and information systems.

f) Written policies and standards for developing and maintaining management control systems (including, in particular, procedures for authorization and for physical security of assets) and procedures and supporting accounting and information systems, including standards for the development, modification and use of computer programs and data files.

Conclusion

Based on these evaluation criteria, the system of internal control in existence during the year ended December 31, 1987 provided reasonable assurance that, in all material respects:

a) the accounts were faithfully and properly kept to permit the preparation of financial statements in accordance with an appropriate basis of accounting;

b) all public money was fully accounted for and properly disposed of and the rules and procedures applied were sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions were executed in accordance with management's authorization, public money expended was applied to the purpose for which it was appropriated by the Legislature and expenditures had adequate statutory authority;

d) essential records were maintained and the rules and procedures applied were sufficient to safeguard and control public money against loss from unauthorized use or disposition.

R.E. Bason
Vice-President
Finance and Corporate Development
Regina, Saskatchewan
February 15, 1989

Thorne Ernst & Whinney
Chartered Accountants

1170 Canada Trust Tower
1801 Hamilton Street
Regina, Saskatchewan, Canada
S4P 4B4

(306) 359-7000

AUDITORS' REPORT
[pursuant to Section 12(1) of The
Provincial Auditor Act as amended ("the Act")]

To the Members of the Legislative Assembly
Province of Saskatchewan

We are the auditors of the Saskatchewan Transportation Company ("STC") and under date of January 29, 1988, we rendered an unqualified opinion, in accordance with Section 11(3) of the Act, on the balance sheet of STC as at October 31, 1987 and the statements of operations and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstance. The financial statements and our report thereon should be read with this report.

Further, we have examined the transactions that come to our notice in the course of examination of the financial statements of STC for the year ended October 31, 1987 to determine if they were in accordance with The Crown Corporations Act, and the Department of Finance Act (and any directives given to the Company pursuant to these Acts). Our examination of these transactions was made in accordance with generally accepted auditing standards, and accordingly included such test and other procedures as we considered necessary in the circumstances.

The Company's borrowing limit established by Order in Council 450/86 is $8,800,000. During the year the Company exceeded that limit by $4,364,000 and at October 31, 1987, the balance of outstanding borrowing was $12,089,000.

In our opinion, except for the matter referred to in the preceding paragraph, these transactions were, in all significant respects, in compliance with the authorities specified.

Based on the examination referred to in this report, there are no matters, other than those reported herein and in the financial statements and our auditors' report thereon that we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly.

Thorne Ernst & Whinney

January 29, 1988

Member of Ernst & Whinney International

KPMG Peat Marwick

Chartered Accountants

200 Saskatchewan Place
1870 Albert Street
Regina, Saskatchewan S4P 4B7

Telephone (306) 757-1211
Telecopier (306) 757-5435

To The Members of the Legislative Assembly, Province of Saskatchewan

We have made a study and evaluation of the system of internal control of Saskatchewan Water Corporation in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Saskatchewan Water Corporation is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with managements authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of Saskatchewan Water Corporation in effect as at December 31, 1987, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material in relation to the financial statements.

Peat Marwick

Chartered Accountants

Regina, Canada

February 19, 1988

KPMG Peat Marwick

Chartered Accountants

200 Saskatchewan Place
1870 Albert Street
Regina, Saskatchewan S4P 4B7

Telephone (306) 757-1211
Telecopier (306) 757-5435

To The Members of the Legislative Assembly, Province of Saskatchewan

We have examined the financial statements of Saskatchewan Water Corporation for the year ended December 31, 1987 and have issued our report dated February 19, 1988 thereon to the Legislative Assembly. We have examined the system of internal control as at December 31, 1987 and have issued our report to the Legislative Assembly dated February 19, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of Saskatchewan Water Corporation has willfully or negligently omitted to collect or receive public money belonging to the Crown; (2) an expenditure was made for which there was no authority or which was not properly vouched or certified, and (3) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

During the course of these examinations, nothing came to our attention that would indicate to us that: (1) any officer or employee of Saskatchewan Water Corporation has willfully or negligently omitted to collect or receive public money belonging to the Crown; (2) there has been a deficiency or loss to the Crown through fraud, default or mistake of any person; and (3) any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.

Peat Marwick

Chartered Accountants

Regina, Canada

February 19, 1988

APPENDIX II

Reports of Appointed Auditors - Part II

The reports of the appointed auditors contained in this part are those reports where I have not completed my audit procedures to determine if I am able to rely on the appointed auditor.

If I determine that I am unable to rely, I will report the circumstances in the next annual report.

The following reports are included:

	Page #
Saskatchewan Crop Insurance Corporation	80
Saskatchewan Auto Fund	84
Saskatchewan Government Insurance	86
Saskatchewan Government Insurance Superannuation Fund	88
Saskatchewan Housing Corporation	90

KPMG Peat Marwick

Chartered Accountants

300 Park Centre
1230 Blackfoot Drive
Regina, Saskatchewan S4S 7G4

Telephone (306) 757-1211
Telecopier (306) 757-5435

To The Members of the Legislative Assembly, Province of Saskatchewan

We have made a study and evaluation of the system of internal control of Saskatchewan Crop Insurance Corporation in effect as at March 31, 1988. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Saskatchewan Crop Insurance Corporation is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with managements' authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following condition in the system of internal control of Saskatchewan Crop Insurance Corporation as at March 31, 1988 which in our opinion, should be brought to your attention:

KPMG Peat Marwick

We observed that $1,100,000 was transferred to the Canada - Saskatchewan Waterfowl Crop Damage Compensation Program Fund from funds appropriated for administration without adequate statutory authority. This resulted due to the absence of specific control procedures for transfers among various funds.

This could result in public money being used for purposes not approved by the Legislature.

In our opinion, except for the matter referred to above, the system of internal control of Saskatchewan Crop Insurance Corporation in effect as at March 31, 1988, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material in relation to the financial statements.

Peat Marwick

Chartered Accountants

Regina, Canada
July 15, 1988

KPMG Peat Marwick

Chartered Accountants

300 Park Centre
1230 Blackfoot Drive
Regina, Saskatchewan S4S 7G4

Telephone (306) 757-1211
Telecopier (306) 757-5435

To The Members of the Legislative Assembly, Province of Saskatchewan

We have examined the financial statements of Saskatchewan Crop Insurance Corporation for the year ended March 31, 1988 and have issued our report dated July 15, 1988 thereon to you. We have examined the system of internal control as at March 31, 1988 and have issued our report to you dated July 15, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of Saskatchewan Crop Insurance Corporation has willfully or negligently omitted to collect or receive public money belonging to the Crown; (2) an expenditure was made for which there was no authority or which was not properly vouched or certified, and (3) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

Our examination disclosed the following matters that in our opinion should be brought to your attention:

1. Province of Saskatchewan Appropriation

   During our examination, we noted that $1,100,000 of funds appropriated for administration (subvote 46-01) was transferred to the Canada-Saskatchewan Water Fowl Crop Damage Compensation Program Fund (subvote 46-02) without proper approval.

2. Special Warrant

   During 1988, a special warrant authorized the payment of $300,000 to the administration fund.

In our opinion, except for the matters referred to above, the Saskatchewan Crop Insurance Corporation has complied, in all material respects, with the provisions of Section 12(1) of the Provincial Auditor's Act.

Peat Marwick

Chartered Accountants

Regina, Canada
July 15, 1988

KPMG Peat Marwick

Chartered Accountants

300 Park Centre
1230 Blackfoot Drive
Regina, Saskatchewan S4S 7G4

Telephone (306) 757-1211
Telecopier (306) 757-5435

To W. G. Lutz, Provincial Auditor

We have made an examination to determine whether Saskatchewan Crop Insurance Corporation complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended March 31, 1988:

The Crop Insurance Act and Regulations
The Department of Finance Act
The Crown Corporations Act
The Crop Insurance Agreement
The Tabling of Documents Act

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During our examination, we observed the following:

1) The Corporation did not receive approval from the Minister of Finance as required under the Department of Finance Act for a $1,100,000 transfer from funds appropriated for administration (subvote 46-01) to the Canada-Saskatchewan Water Fowl Crop Damage Compensation Program Fund (subvote 46-02).

2) For indemnity payments made after December 31, 1987, the Corporation made payments without a proof of loss form. This form is required under the Crop Insurance Regulations.

In our opinion, except for the matters noted above, Saskatchewan Crop Insurance Corporation has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended March 31, 1988.

Peat Marwick

Chartered Accountants

Regina, Canada
July 15, 1988

Appendix II

Coopers & Lybrand

chartered accountants

1900 Lloyds Bank Tower
1874 Scarth Street
Regina, Saskatchewan
Canada S4P 4B3

telephone (306) 757-0613

a member firm of
Coopers & Lybrand (International)

AUDITORS' REPORT

TO: THE MEMBERS OF THE LEGISLATIVE ASSEMBLY, PROVINCE OF SASKATCHEWAN
ATTENTION: W.G. LUTZ, PROVINCIAL AUDITOR

We have examined the accounts of the Saskatchewan Auto Fund for the year ended December 31, 1987 as they relate to public money pursuant to Section 11 of The Provincial Auditor's Act. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, in all material respects for the year ended December 31, 1987:

a) the accounts of the Fund were faithfully and properly kept;

b) all public money was fully accounted for and properly disposed of and the rules and procedures applied were sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) public money expended was applied to the purpose for which it was appropriated by the Legislature and the expenditures had adequate statutory authority; and

d) essential records were maintained and the rules and procedures applied were sufficient to safeguard and control public money.

Coopers & Lybrand

CHARTERED ACCOUNTANTS
June 15, 1988

Coopers
& Lybrand

chartered accountants

1900 Lloyds Bank Tower
1874 Scarth Street
Regina, Saskatchewan
Canada S4P 4B3

telephone (306) 757-0613

a member firm of
Coopers & Lybrand (International)

AUDITORS' REPORT

TO: THE MEMBERS OF THE LEGISLATIVE ASSEMBLY, PROVINCE OF SASKATCHEWAN
ATTENTION: W.G. LUTZ, PROVINCIAL AUDITOR

We have examined the financial statements of the Saskatchewan Auto Fund for the year ended December 31, 1987 and have issued our report dated February 26, 1988 thereon to the Legislative Assembly. We have also examined the accounts of the Fund for the year ended December 31, 1987 as they relate to public money and have issued our report thereon dated June 15, 1988 to the Legislative Assembly, pursuant to Section 11 of The Provincial Auditor's Act.

Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Pursuant to Section 12(1) of The Provincial Auditor's Act we confirm that there are no reservations of opinion contained in our report related to the above examinations.

Coopers & Lybrand

CHARTERED ACCOUNTANTS
June 16, 1988

Coopers & Lybrand

chartered accountants

1900 Lloyds Bank Tower
1874 Scarth Street
Regina, Saskatchewan
Canada S4P 4B3

telephone (306) 757-0613

a member firm of
Coopers & Lybrand (International)

AUDITORS' REPORT

TO: THE MEMBERS OF THE LEGISLATIVE ASSEMBLY, PROVINCE OF SASKATCHEWAN
ATTENTION: W.G. LUTZ, PROVINCIAL AUDITOR

We have examined the financial statements of Saskatchewan Government Insurance for the year ended December 31, 1987 and have issued our report dated February 26, 1988 thereon to the Legislative Assembly. We have also examined the accounts of the Corporation for the year ended December 31, 1987 as they relate to public money and have issued our report thereon dated June 15, 1988 to the Legislative Assembly, pursuant to Section 11 of The Provincial Auditor's Act.

Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Pursuant to Section 12(1) of The Provincial Auditor's Act we confirm that there are no reservations of opinion contained in our report related to the above examinations.

Coopers & Lybrand

CHARTERED ACCOUNTANTS
June 16, 1988

Coopers & Lybrand

chartered accountants

1900 Lloyds Bank Tower
1874 Scarth Street
Regina, Saskatchewan
Canada S4P 4B3

telephone (306) 757-0613

a member firm of
Coopers & Lybrand (International)

AUDITORS' REPORT

TO: THE MEMBERS OF THE LEGISLATIVE ASSEMBLY, PROVINCE OF SASKATCHEWAN
ATTENTION: W.G. LUTZ, PROVINCIAL AUDITOR

We have examined the accounts of Saskatchewan Government Insurance for the year ended December 31, 1987 as they relate to public money pursuant to Section 11 of The Provincial Auditor's Act. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, in all material respects for the year ended December 31, 1987:

a) the accounts of the Corporation were faithfully and properly kept;

b) all public money was fully accounted for and properly disposed of and the rules and procedures applied were sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) public money expended was applied to the purpose for which it was appropriated by the Legislature and the expenditures had adequate statutory authority; and

d) essential records were maintained and the rules and procedures applied were sufficient to safeguard and control public money.

Coopers & Lybrand

CHARTERED ACCOUNTANTS
June 15, 1988

Appendix II

Coopers & Lybrand

chartered accountants

1900 Lloyds Bank Tower
1874 Scarth Street
Regina, Saskatchewan
Canada S4P 4B3

telephone (306) 757-0613

a member firm of
Coopers & Lybrand (International)

AUDITORS' REPORT

TO: THE MEMBERS OF THE LEGISLATIVE ASSEMBLY, PROVINCE OF SASKATCHEWAN
ATTENTION: W.G. LUTZ, PROVINCIAL AUDITOR

We have examined the accounts of the Saskatchewan Government Insurance Superannuation Fund for the year ended December 31, 1987 as they relate to public money pursuant to Section 11 of The Provincial Auditor's Act. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, in all material respects for the year ended December 31, 1987:

a) the accounts of the Fund were faithfully and properly kept;

b) all public money was fully accounted for and properly disposed of and the rules and procedures applied were sufficient to secure an effective check on the assessment, collection and proper allocation of public money;

c) public money expended was applied to the purpose for which it was appropriated by the Legislature and the expenditures had adequate statutory authority; and

d) essential records were maintained and the rules and procedures applied were sufficient to safeguard and control public money.

Coopers & Lybrand

CHARTERED ACCOUNTANTS
June 15, 1988

Coopers & Lybrand

chartered accountants

1900 Lloyds Bank Tower
1874 Scarth Street
Regina, Saskatchewan
Canada S4P 4B3

telephone (306) 757-0613

a member firm of
Coopers & Lybrand (International)

AUDITORS' REPORT

TO: THE MEMBERS OF THE LEGISLATIVE ASSEMBLY, PROVINCE OF SASKATCHEWAN
ATTENTION: W.G. LUTZ, PROVINCIAL AUDITOR

We have examined the financial statements of the Saskatchewan Government Insurance Superannuation Fund for the year ended December 31, 1987 and have issued our report dated March 8, 1988 thereon to the Legislative Assembly. We have also examined the accounts of the Fund for the year ended December 31, 1987 as they relate to public money and have issued our report thereon dated June 15, 1988 to the Legislative Assembly, pursuant to Section 11 of The Provincial Auditor's Act.

Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Pursuant to Section 12(1) of The Provincial Auditor's Act we confirm that there are no reservations of opinion contained in our report related to the above examinations.

Coopers & Lybrand

CHARTERED ACCOUNTANTS
June 16, 1988

KPMG Peat Marwick

Chartered Accountants

200 Saskatchewan Place
1870 Albert Street
Regina, Saskatchewan S4P 4B7

Telephone (306) 757-1211
Telecopier (306) 757-5435

To The Members of the Legislative Assembly, Province of Saskatchewan

We have made a study and evaluation of the system of internal control of Saskatchewan Housing Corporation in effect as at December 31, 1987. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Saskatchewan Housing Corporation is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with managements authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of Saskatchewan Housing Corporation in effect as at December 31, 1987, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material in relation to the financial statements.

Peat Marwick

Chartered Accountants

Regina, Canada

March 19, 1988

KPMG Peat Marwick

Chartered Accountants

200 Saskatchewan Place
1870 Albert Street
Regina, Saskatchewan S4P 4B7

Telephone (306) 757-1211
Telecopier (306) 757-5435

The Members of the Legislative Assembly

We have examined the financial statements of the Saskatchewan Housing Corporation for the year ended December 31, 1987 and have issued our report dated March 19, 1988 thereon to you. We have examined the system of internal control as at December 31, 1987 and issued our report to you dated March 19, 1988. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of the Saskatchewan Housing Corporation has willfully or negligently omitted to collect or receive public money belonging to the Crown; (2) an expenditure was made for which there was no authority or which was not properly vouched or certified; and (3) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

Our examination disclosed the following matters that in our opinion should be brought to your attention:

1. Home Improvement Program - Grants Payments

During our review and audit of grant payments made by the corporation under the Home Improvement Program we discovered a number of errors resulting in incorrect payments having been made. Specifically, payments totalling $991.79 were made on invoices dated prior to the program implementation date of September 1, 1986. Payments were made on improvements of questionable eligibility without supervisory approval or subsequent inspection of the premises. These payments totalled $532.40. Finally, clerical errors were found resulting in overpayments totaling $858.00 and underpayments totalling $409.42.

KPMG Peat Marwick

The above noted errors totalling a net combined actual and potential overpayment of $1,892.77 were found in a total sample of 444 grant payments totalling $502,364 in payments, selected on a monetary unit sampling basis.

2. Special Warrants

During 1987 special warrants authorized the payment of $1,800,000 under the First Time New Home Buyers' Program and $1,575,000 under the Senior Citizens Home Repair Program.

In our opinion, except for the matters referred to above, the Saskatchewan Housing Corporation has complied, in all significant respects, with the provisions of Section 12(1) of the Provincial Auditor's Act as amended.

Peat Marwick

Chartered Accountants

Regina, Canada
March 19,1988

APPENDIX III

Audits Not Completed At March 24, 1989

The Standing Committee on Public Accounts has recommended an audit of every government agency every year.

In prior years my annual reports have been delayed until substantially all audits are completed.

As stated in paragraph 1.11, this report includes audits completed at March 24, 1989.

Given the existing circumstances, this departure in practice is necessary to improve the timeliness of the information given to the Members of the Legislative Assembly.

All audits not completed at March 24, 1989 will be completed and the results of those audits will be reported to the Legislative Assembly in my next annual report or a special report.

The audits not completed at March 24, 1989 are at various stages of completion. While all audit procedures may have been conducted on the books and records of a government agency, the audit is not considered complete until my officials discuss the findings with management of the agency. This process is necessary to allow management a chance to comment on the audit findings before they are reported to the Legislative Assembly.

The following audits are not fully completed at March 24, 1989:

Agricultural Credit Corporation of Saskatchewan
Crown Investments Corporation of Saskatchewan
Department of Finance - Comptroller's Division
Department of Highways
Department of Supply & Services
Law Reform Commission
Market Development Fund
Members of the Legislative Assembly Superannuation Fund
Potash Corporation of Saskatchewan
Public Employees (Government Contributory) Annuity Fund
Public Employees Dental Fund
Public Employees (Government Contributory) Superannuation Plan
Saskatchewan Auto Fund
Saskatchewan Crop Insurance Corporation
Saskatchewan Government Insurance
Saskatchewan Government Insurance Superannuation Fund
Saskatchewan Housing Corporation
Saskatchewan Pension Plan

Saskatchewan Prescription Drug Plan
Saskatchewan Property Management Corporation
Saskatchewan Student Aid Fund
Saskatchewan Telecommunications
Saskatchewan Telecommunications Superannuation Board
Saskatchewan Telecommunications International Inc.
Westank Industries Ltd.
Westbridge Computer Corporation

APPENDIX IV

List of Financial Statements and/or Annual Reports Not Tabled In The Legislative Assembly in the Manner Required By Law

Agricultural Credit Corporation of Saskatchewan
Agricultural Implements Board
Battlefords Regional Care Centre
Crown Investments Corporation of Saskatchewan
Doukhobors of Canada Trust Fund (1987, 1986 and 1985)
Fish and Wildlife Development Fund
Judges of the Provincial Court Superannuation Fund (1987 and 1986)
Members of the Legislative Assembly Superannuation Fund (1987 and 1986)
Milk Control Board
Municipal Financing Corporation
Northern Revenue Sharing Trust Account (1986)
Palliser Regional Care Centre
Parkland Regional Care Centre
Parkridge Centre
Potash Corporation of Saskatchewan
Prairie Agricultural Machinery Institute
Prescription Drug Plan
Prince Albert Institute of Applied Arts and Sciences Revolving Fund (1987)
Public Employees (Government Contributory) Annuity Fund (1987 and 1986)
Public Employees Dental Fund
Public Employees Disability Income Fund
Public Employees Group Life Insurance Fund
Public Employees (Government Contributory) Superannuation Fund (1987 and 1986)
Public Service Superannuation Board (1987 and 1986)
Public Trustee for Saskatchewan
Regina General Hospital
St. Louis Alcoholism Rehabilitation Centre
Saskatchewan Agricultural Research Fund
Saskatchewan Agricultural Returns Stabilization Fund
Saskatchewan Alcohol and Drug Abuse Commission
Saskatchewan Anti-Tuberculosis League Employees Superannuation Fund (1987 and 1986)
Saskatchewan Arts Board
Saskatchewan Beef Stabilization Board
Saskatchewan Cancer Foundation
Saskatchewan Centre of the Arts
Saskatchewan Computer Utility Corporation
Saskatchewan Crop Insurance Corporation
Saskatchewan Economic Development Corporation
Saskatchewan Forest Products Corporation
Saskatchewan Government Printing Company
Saskatchewan Grain Car Corporation

Saskatchewan Health Research Board
Saskatchewan Heritage Fund
Saskatchewan Horse Racing Commission
Saskatchewan Hospitalization Fund
Saskatchewan Legal Aid Commission
Saskatchewan Liquor Board
Saskatchewan Liquor Board Superannuation Fund
Saskatchewan Liquor Licensing Commission
Saskatchewan Medical Care Insurance Commission
Saskatchewan Mining Development Corporation
Saskatchewan Pension Plan
Saskatchewan Property Management Corporation
Saskatchewan Research Council
Saskatchewan Student Aid Fund
Saskatchewan Telecommunications
Saskatchewan Transportation Company Employees Superannuation Fund (1987 and 1986)
Souris Valley Regional Care Centre (1987 and 1986)
South Saskatchewan Hospital Centre
Teachers' Superannuation Commission
University Hospital
Wascana Rehabilitation Centre
Western Development Museum
Whitespruce Youth Treatment Centre